IRISH HOTEL MARKET REPORT

JULY 2023

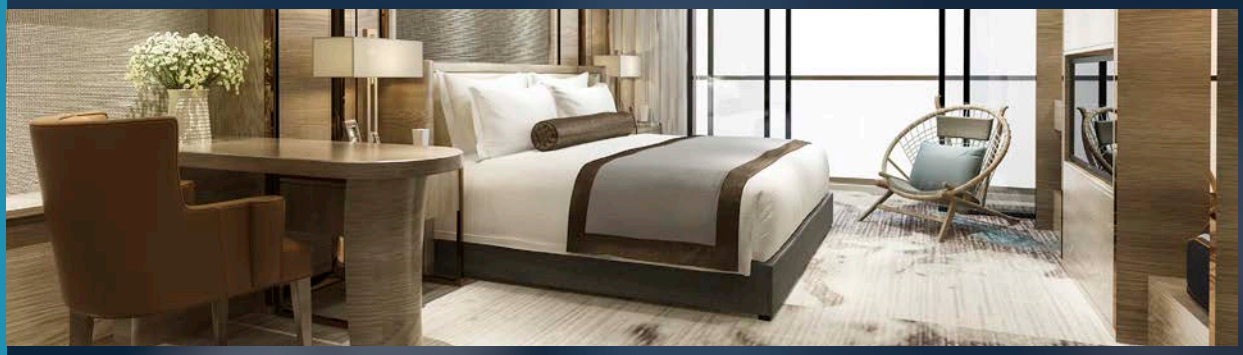




CUSHMAN & WAKEFIELD

THE IRISH HOTEL SECTOR

PANDEMIC ERA GIVES WAY TO RENAISSANCE



The Irish hotel sector has experienced unprecedented volatility in recent years with the COVID pandemic calling into question its very survival.

The pandemic has given way however to a robust recovery underpinned by a fast-growing Irish economy and a quicker than expected resumption of international travel patterns.

Looking ahead we expect strong employment, solid wage growth and sizeable household deposits in Ireland (over €150 Billion, approximately 30% of Irish GDP) to support consumer spending and leisure demand.

Inbound travel indicators suggest that visitor numbers are rapidly closing in on pre-COVID levels and forecasts point to average growth of 11% per annum over the next three years.

Occupancy and room rates have now largely recovered to pre-COVID levels. While the recovery was led initially by regional markets, Dublin is now quickly playing catchup.

Despite the improved backdrop, the sector still faces challenges around energy costs, staffing issues, the potential reinstatement of the 13.5% VAT rate and the outlook for the room stock currently in alternative use.

Construction and financial costs currently represent key constraints on further development in the Irish market. While the majority of the development pipeline is focused on Dublin in the next two years, we believe the improved trading backdrop should help this market absorb the new capacity.

The hotel market has enjoyed a good performance so far in 2023 from a transactional point of view with approximately €130m transacted across nine deals in addition to a number of hotels and sites going sale agreed in recent weeks.

MACROECONOMIC OVERVIEW

The hotel sector without question faced an existential challenge in recent years as a result of the COVID pandemic. Thankfully however, society, the economy and businesses have emerged from the period and the hotel sector is now showing signs of capitalising on this post COVID revival.

STRONG RECOVERY IN ACCOMMODATION SPEND

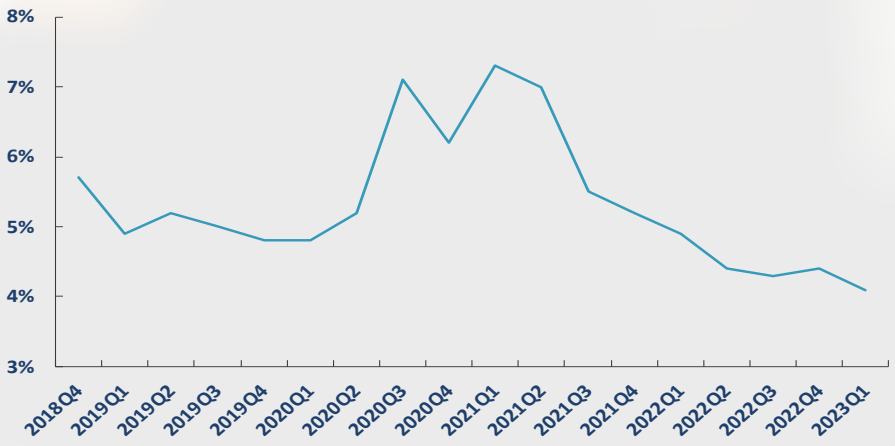
The economic backdrop for the Irish hospitality sector has been very supportive in the aftermath of the COVID era. In real GDP terms the Irish economy grew by double digits in 2021 and 2022 with consumer spending growing by an average of over 5% over that period.

The strength of domestic consumer spending has been underpinned by continued low unemployment and solid wage growth (see charts 1 and 2).

Looking forward, this positive macro setting appears set to continue. Despite a more uncertain international economic environment the Irish economy is forecast to perform well in 2023 and 2024. Headline real GDP is forecast to grow strongly in the 2023-2024 period while modified domestic demand (a good proxy for domestic consumer spending) is forecast to grow by around 2% per annum over the same period even in the face of elevated inflation.*

"Ireland's strong economic fundamentals represent a clear tailwind for the hotel sector."

CHART 1 : IRELAND UNEMPLOYMENT RATE



Source: Moodys Analytics, June 2023

CHART 2 : IRELAND WAGE GROWTH*



*Source: Moodys Analytics, June 2023 *Annual Change in Average Weekly Earnings*

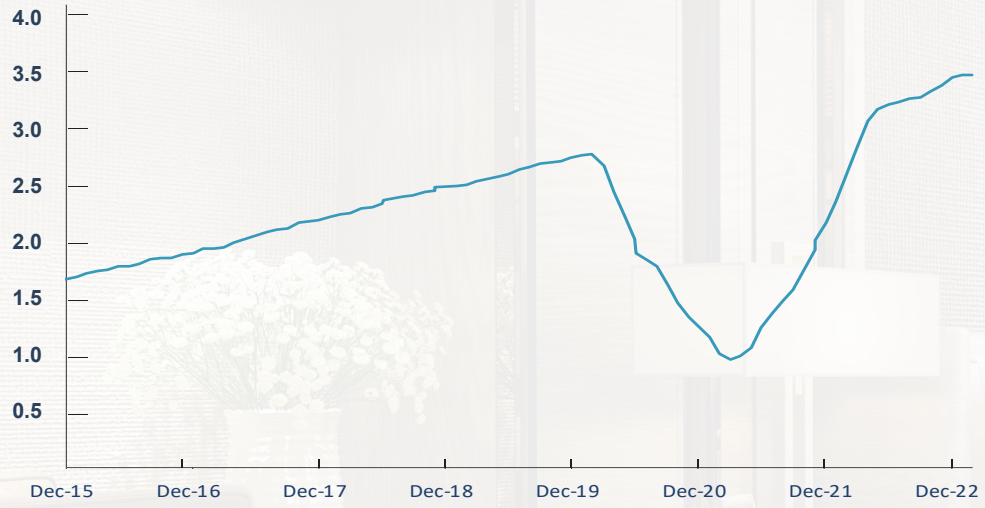
*Forecasts from Ireland Department of Finance

MACROECONOMIC OVERVIEW

Domestic consumer spending on accommodation staged a strong recovery in the aftermath of the COVID pandemic (see chart 3). In our view the macro ingredients exist for this to continue over the next couple of years, albeit perhaps at a slower pace with the recent acceleration in inflation. The consistent growth in household deposits (now standing at approximately €150 Billion or around 30% of GDP, see chart 4) also represents a notable source of support for domestic spending.

"Household savings have risen to over €150 Billion which should also support consumer and leisure spending in Ireland."

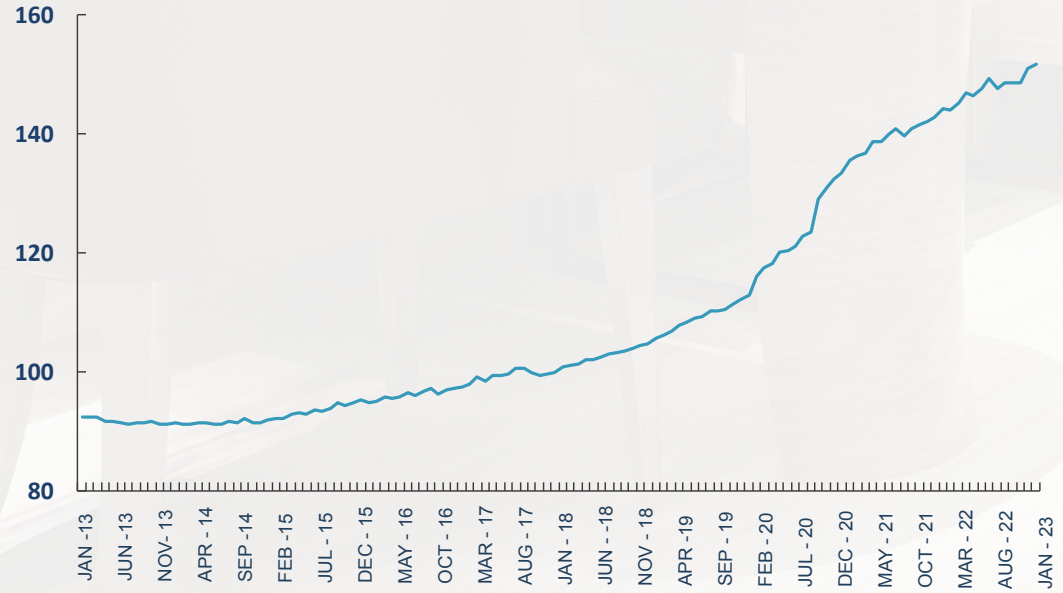
CHART 3 : TOTAL IRISH SPENDING ON ACCOMMODATION (€BN)*



*Source: Central Bank of Ireland , June 2023 *Total spend (credit and debit) over a 12m period*

"Irish households have accumulated significant amounts on deposit which should support the outlook for consumer spending"

CHART 4 : IRISH HOUSEHOLD DEPOSITS (€BN)



Source: Central Bank of Ireland , June 2023

MACROECONOMIC OVERVIEW

PASSENGER NUMBERS REBOUNDING

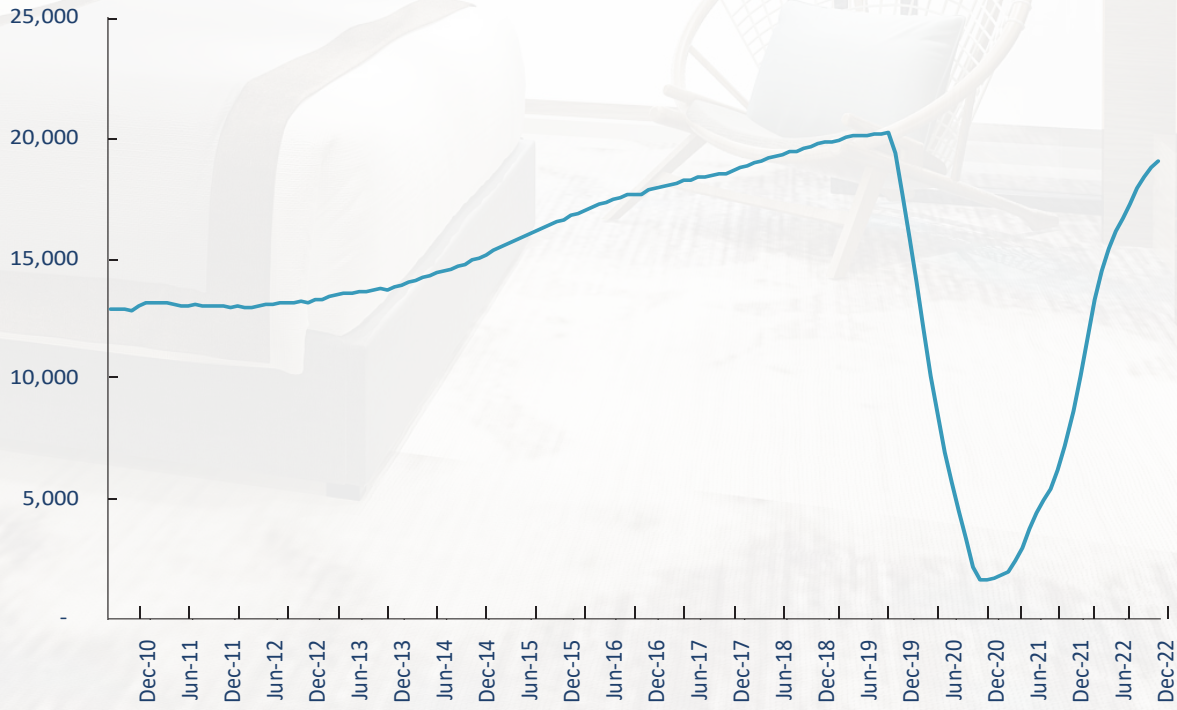
Thankfully, incoming passenger numbers into Ireland (a good barometer for tourist travel) have rebounded sharply as economies have reopened and travel appetites have recovered in the past eighteen months. On a rolling twelve-month basis, we can see in chart 5 that traveller numbers had recovered to around 94% of their pre-COVID levels by the end of the first quarter of 2023. The weakness of the euro may also have played a part here with the proportion of US visitors in particular increasing over the past year.

"Oxford Economics forecasts that visitor numbers into Ireland will grow by 11% per annum on average up to 2025."

The trend in passenger numbers both pre and post COVID also suggests that Brexit may not have had the negative impact on the hotel sector that many once feared with visitor numbers from Great Britain largely flatlining rather than falling in the post referendum period. Mirroring the trends from other nations, visitor numbers from Great Britain are now rapidly closing in on pre-COVID levels.

Looking ahead, the outlook for inbound travel into Ireland is set to remain bright with Oxford Economics forecasting that total visitor numbers will grow by almost 11% per annum out to 2025 with most of that growth visible in the next two years.

CHART 5 : INTERNATIONAL ARRIVALS INTO IRELAND (12M BASIS, 000S)



Source: Central Statistics Office , June 2023

IRISH HOTEL MARKET OVERVIEW

OCCUPANCY, ROOM RATES BACK TO PRE-COVID LEVELS

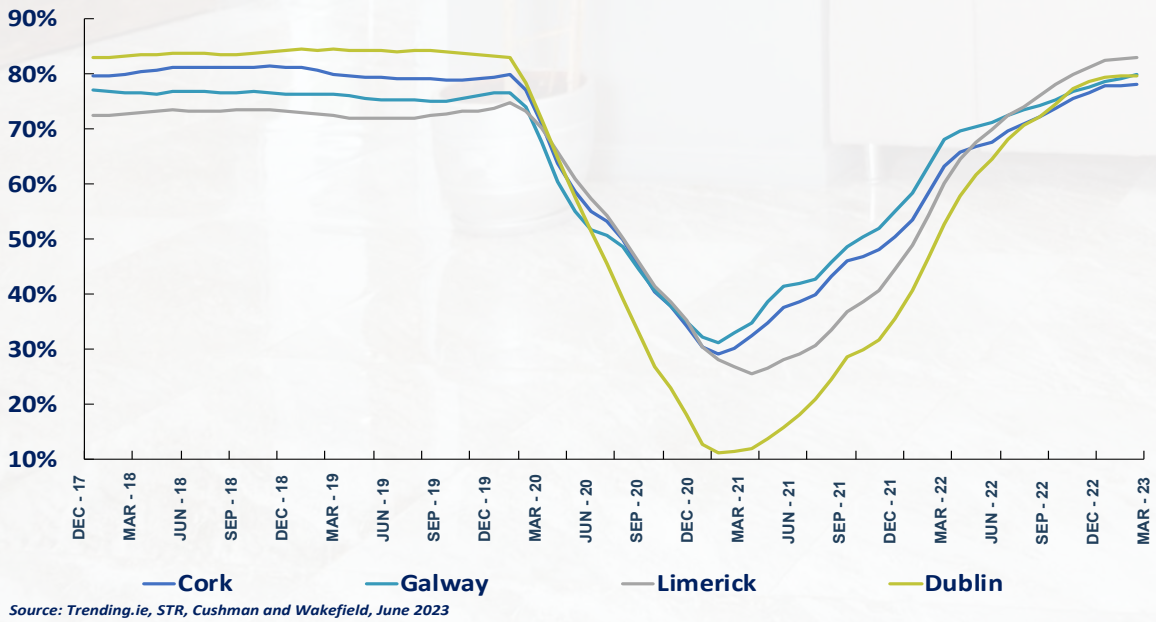
The hotel sector experienced unprecedented trading volatility during the pandemic era. The broader impact of the pandemic on the hotel sector is still visible in places, but in general most of the scars have faded as society and the economy reopened.

Occupancy and room rates have largely recovered back to pre-COVID levels in the main Irish cities (charts 6 and 7). Locations outside Dublin experienced a slightly quicker recovery thanks to their greater relative exposure to the domestic economy compared to Dublin hotels. In fact, occupancy and room rates in areas like Limerick and Galway are now edging above the levels which prevailed in the pre-COVID era which bodes well for a positive outlook for Irish RevPAR (Revenue per available room). Meanwhile, a quicker than expected rebound in international travel has also translated into a sharp recovery in RevPAR at Dublin hotels (chart 8). Many of these positive trends were also visible in Dalata Hotel Group's first half financial results for 2023 where it noted that like for like RevPAR performance for Dublin and regional Ireland for Q2 was up 10% and 15% respectively compared with 2022.

"Occupancy, room rates and RevPAR at Irish hotels have largely recovered to pre-COVID levels and continue to trend higher."

"Energy costs, staffing issues and the potential reinstatement of the 13.5% VAT rate however present challenges to the hotel sector."

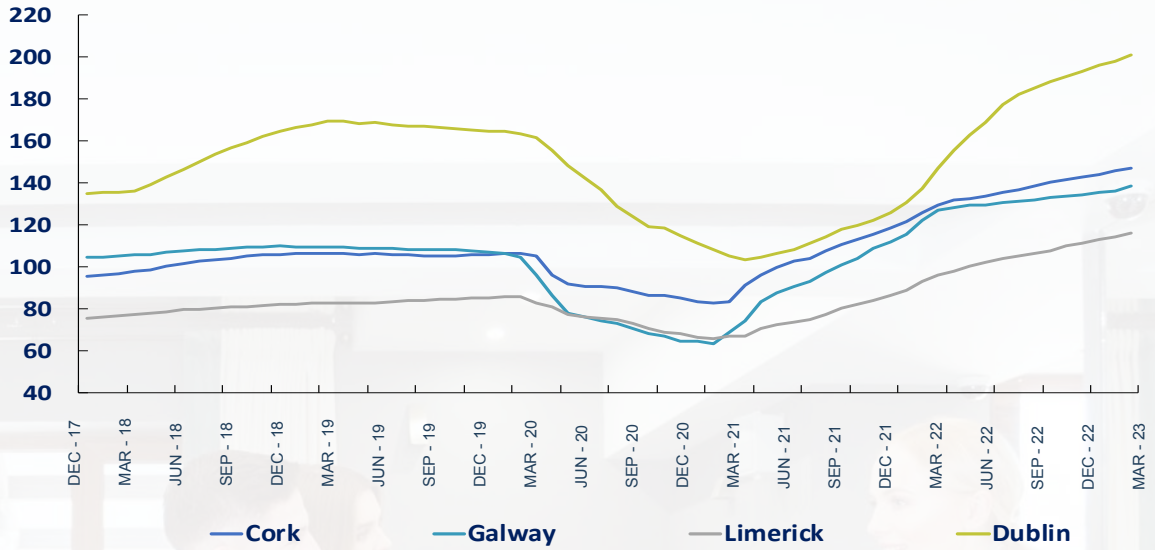
CHART 6 : ROLLING 12 MONTH AVERAGE OCCUPANCY HOTEL RATES



Source: Trending.ie, STR, Cushman and Wakefield, June 2023

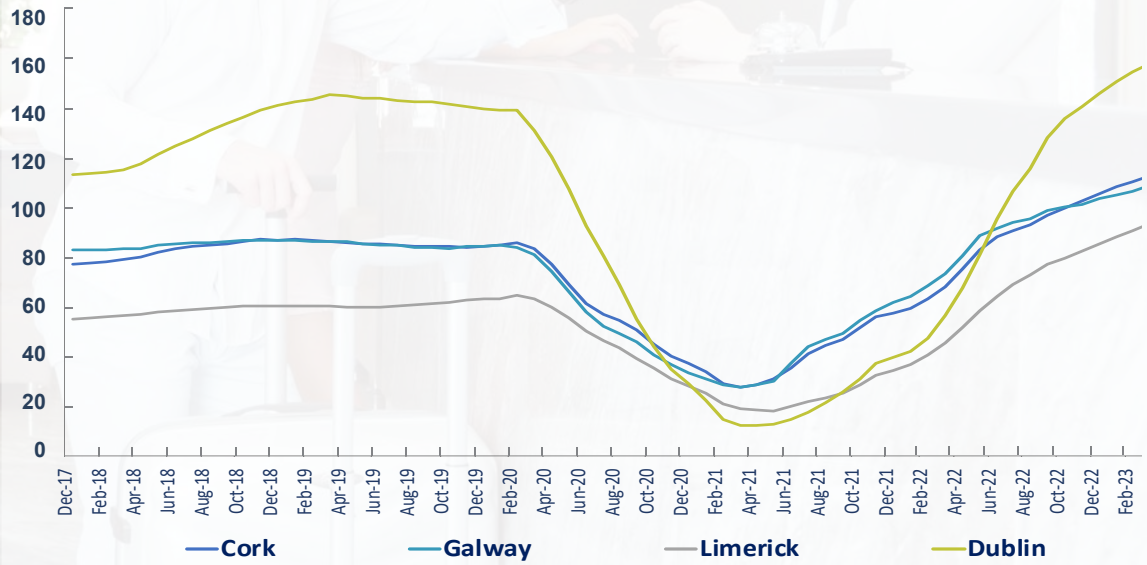
IRISH HOTEL MARKET OVERVIEW

CHART 7: ROLLING 12 MONTH AVERAGE DAILY ROOM RATES (ADR, €)



Source: Trending.ie, STR, Cushman and Wakefield, June 2023

CHART 8: ROLLING 12 MONTH AVERAGE REVENUE PER AVAILABLE ROOM (REVPAR, €)



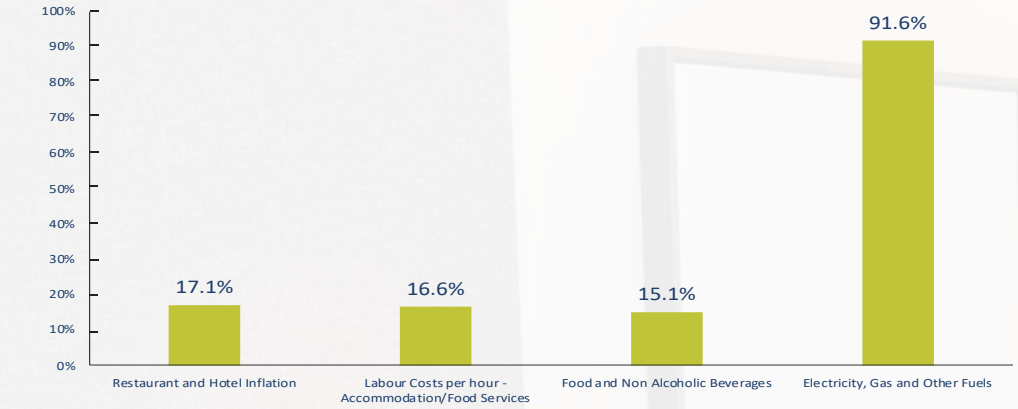
Source: Trending.ie, STR, Cushman and Wakefield, June 2023

That said, the hotel sector does however still face challenges from rising inflation over the past year while labour and skills shortages have also come to the fore in the aftermath of the pandemic.

Labour, energy and food are all important input costs for the sector that have risen over the past number of years. Chart 9 shows that, broadly speaking, accommodation inflation (as measured by the CSO) has kept pace with many cost increases over the period. However, energy costs are the exception here given their rising trajectory since the pandemic which has been intensified by the fallout of Russia's invasion of Ukraine.

IRISH MARKET OVERVIEW

CHART 9 : ACCOMMODATION AND RELATED COST INFLATION Q4 2019-Q1 2023



Source: Central Statistics Office , May 2023

The introduction of the Temporary Business Energy Support Scheme (TBESS) by the Irish government in September 2022 provided some badly needed short term relief for hotels from rising energy costs. The scheme allows hotels to claim for 40-50% of the increase in costs experienced over the Q4 2022-Q2 2023 period compared to the previous year. Although the support scheme is scheduled to end in July 2023 it will provide some shelter from energy inflation in the first half of 2023 until such time as energy costs normalise.

The news on this front is more positive – wholesale electricity prices for example were down two thirds by April 2023 compared with their peak in August 2022. This is slowly translating into reductions in business energy costs, something we expect to see more of as we move through the second half of 2023. Longer term, greater investment in automation, technology and energy saving initiatives is also likely to support hotel profitability and sustainability.

> **"On balance it seems more likely VAT rates will revert to 13.5% but we are optimistic this will not adversely impact the sector."**

RESTORATION OF 13.5% VAT RATE ALSO ON THE HORIZON

Another forthcoming development for the hotel sector is the restoration of the 13.5% VAT rate (currently 9%) which is scheduled to occur in September 2023. On balance it seems more likely that VAT rates will revert back to 13.5% although in our view this is dependent on hotels gradually benefitting from easing energy prices in the second half of the year.

Assuming VAT rates for the sector revert back to 13.5% how will hoteliers react? If they choose to pass on most if not all of the VAT increase onto customers will this have a negative impact on occupancy going forward? Hotel occupancy depends on a wide range of factors other than just room rates including location, quality of food and beverage, cleanliness, the broader customer experience and so on. Overall, we remain optimistic that if the VAT increase is passed on, it will not have a notable negative impact on short term occupancy. However, more broadly this issue highlights Ireland's ongoing need to remain competitive from a cost perspective in what is a fiercely contested international travel market.

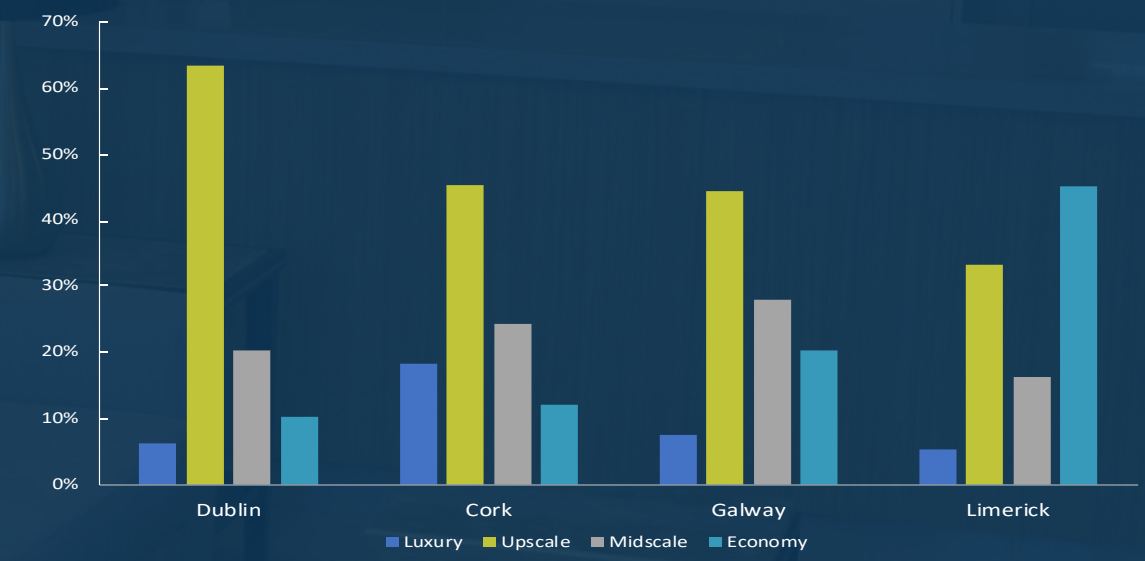
DEVELOPMENT ACTIVITY

The Irish hotel stock has grown steadily by 1.6% per annum over the past 10 years with the Dublin hotel stock growing by 2.9% per annum over the same period. The COVID era inevitably led to temporary closures in the sector but by the end of 2022 the national hotel room stock had surpassed pre-COVID levels led by growing room numbers in Dublin in particular.

Across the main Irish cities, the majority of rooms sit in the upscale category (see chart 10). Upscale rooms have become even more the dominant hotel category in the Dublin market since the pandemic although room numbers in the economy category have also increased with new brand/operator entrants such as Easy Hotels, Premier Inn and Weatherspoon's.

"Ireland's hotel stock has grown by 1.6% per annum over the past ten years with the Dublin market outpacing this, growing by almost 3% per annum in the same period."

CHART 10 : BREAKDOWN OF IRISH CITY HOTEL ROOMS*



Source: AM:PM, June 2023 *Upscale = Upscale + Upper Upscale, Midscale - Midscale + Upper Midscale

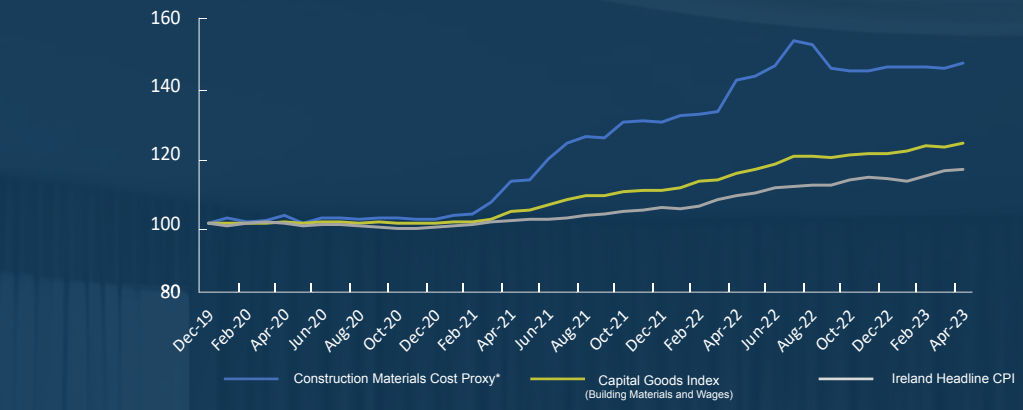
CONSTRUCTION, FINANCE COSTS REPRESENT HEADWINDS TO FURTHER DEVELOPMENT

From a development perspective, construction and finance costs remain key challenges at present. Chart 11 shows that our proxy for Irish construction inflation is slowing but not yet moving lower. As we noted earlier, we are beginning to see energy inflation ease from their high rates in 2022 which should also hopefully help the outlook for some elements of materials pricing in the next twelve months. Meanwhile the European Central Bank continued to increase interest rates over the past few months. Chart 12 indicates that investors believe the ECB is close to peak interest rates and could modestly cut interest rates in 2024. However, for this scenario to become reality Euro area inflation readings need to continue to improve as they have done in recent months.

DEVELOPMENT ACTIVITY

"Approximately 3,600 new hotel rooms are forecast to be delivered to the Irish market by the end of 2024 with the vast majority earmarked for Dublin."

CHART 11 : CONSTRUCTION COSTS* IRELAND, REBASED TO 100



*Source: CSO, May 2023 *refers to an equally weighted basket of aggregates, concrete blocks /bricks , steel and timber*

Looking ahead, approximately 3,600 new hotel rooms are forecast to be delivered to the Irish market by the end of 2024 with almost 70% of those due for completion by the end of this year. Not surprisingly, the vast majority of these new rooms (84%) are destined for the Dublin market. The new stock is likely to be most visible in the economy segment of the Dublin market, continuing the strong recent growth here. Examples include new openings from the Premier Inn Group and Motel One, highlighting how the recent growth in footprint from branded hotels is set to continue in Ireland.

"Construction and finance costs remain key headwinds for further hotel development in the Irish market."

CHART 12 : ECB INTEREST RATE EXPECTATIONS



Source: Bloomberg , June 2023

DEVELOPMENT ACTIVITY

Another medium-term factor of note in relation to the Irish hotel stock is the numbers of Irish hotel rooms currently being used for alternative purposes. The data suggest that any potential impact of such rooms coming back to hospitality use may be larger in regional Ireland outside of the main cities. Generally speaking however, we expect many of these rooms to remain in alternative use for the time being.



TRANSACTIONAL ACTIVITY

€130 MILLION OF TRANSACTIONS IN H1 2023

The Irish hotel market has enjoyed a good performance so far in 2023 from a transactional point of view. Thus far a total of approximately €130m worth of hotel assets has been transacted across nine deals. This puts the market on course to achieve a similar transactional performance compared to H1 2022. In addition, there is a healthy pipeline of deals for hotels and sites that have also gone sale agreed in recent weeks.

"Geographically the deals were well spread across Ireland with many completed by Irish investors perhaps recognising the improved post COVID environment."

So far this year the majority of deals by number have been for assets sub €20m. However, a number of larger deals took place in the second quarter of the year with Brooks Hotel in Dublin acquired by the MHL Group for approximately €50 million and the Imperial Hotel in Cork selling for approximately €25 million (see table 1). Geographically the value of deals was reasonably well spread across the country as we can see in chart 13 while many of the deals were completed by Irish investors, perhaps a recognition of the improved trading environment post COVID.

"The hotel market has enjoyed a good performance so far in 2023 from a transactional point of view with approximately €130m transacted across nine deals."

In terms of prime leased hotel valuations, Dublin hotels have seen small changes in yields over the past few months particularly compared to some of the other sectors across the market. Looking ahead we expect such yields to move modestly higher given the backdrop of continued interest rate increases in the Euro area.

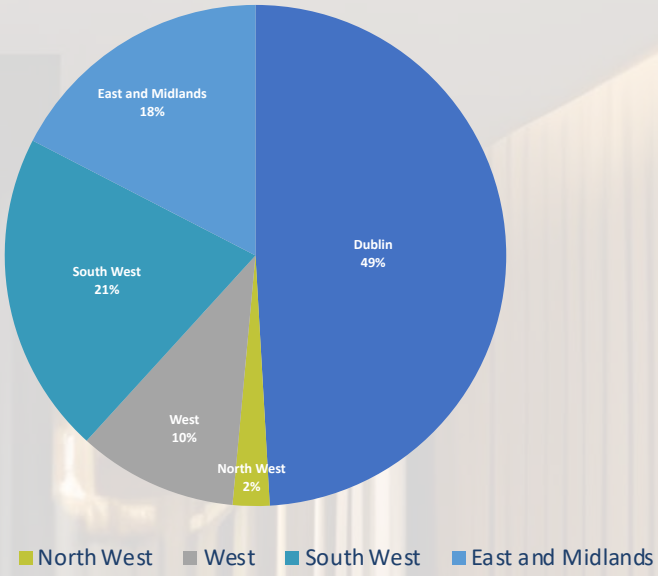
TRANSACTIONAL ACTIVITY

TABLE 1 : TOP 5 HOTEL TRANSACTIONS H1 2023

Hotel	County	Category	Price (€m)	Rooms	Price per room	Buyer Origin
Brooks Hotel	Dublin	Upper Upscale	50.0	98	510,204	Ireland
Imperial Hotel	Cork	Midscale	25.0	125	200,000	Ireland
Tulfarris Hotel and Golf Resort	Wicklow	Upper Midscale	15.0	92	163,043	Singapore
Maldron Hotel	Galway	Upscale	13.0	113	115,044	Ireland
Springfield Hotel	Kildare	Midscale	7.0	58	120,690	Ireland

Source: Cushman and Wakefield , June 2023

CHART 13 : GEOGRAPHIC BREAKDOWN OF HOTEL TRANSACTION H1 2023



Source: Cushman and Wakefield , June 2023

THE IRISH HOTEL REPORT CREATORS



TOM McCABE
Head of Research & Insights
tom.mccabe@cushwake.com
Tel: 01 639 9244



EMMA REARDON
Divisional Director
emma.reardon@cushwake.com
Tel: 01 639 9305



RYAN MURPHY
Surveyor
ryan.c.murphy@cushwake.com
Tel: 01 639 9236



IRISH HOTEL MARKET REPORT

JULY 2023

CUSHMAN & WAKEFIELD