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# Hotel Market in Northern Ireland

A report from the Northern Ireland Hotels Federation
on the hotel market and the challenges it faces.

OCTOBER 2020

“£650m investment in hotel stock by 2020.”

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# Cautious Optimism Quickly Dashed

**Introduction**

The hotel sector entered 2020 confidently. Investment of around £650m in new and upgraded stock in the preceding five years had delivered an exceptional product and the hotel sector in Northern Ireland was well placed to capitalise on this outlay. Forecasts for the year predicted a year of consolidation with small increases in occupancy and rate. The frenetic expansion of the previous five years had slowed down. The industry was poised to capitalise on increased all island air access, a modern and well invested hotel stock with a record number of rooms and strong international interest in visiting the region.

As 2020 dawned, the biggest challenge on the horizon was Brexit, mooted as a significant challenge for the industry with far reaching impact on the local economy.

Reports of a virus from China in a place called Wuhan appeared to be a million miles away and far from the minds of the hotel sector in Northern Ireland. Indeed, the Asian market had started to show early green shoots for local tourism. Direct access from China had facilitated new tour business from the region and, from a small start, great things were predicted.

Northern Ireland had a new brand, Northern Ireland - Embrace a Giant Spirit, which had been well received at a World Travel Market launch. Plans to roll it out internationally were in place for 2020. The brand gave tourism north of the border a new identity and an opportunity to sit alongside other island of Ireland brands including The Wild Atlantic Way, Ireland's Hidden Heartland and Ireland's Ancient East.

Considerable investment had been made in a market review of Northern Ireland's attractiveness to its biggest market, Great Britain. A review of the Republic of Ireland market and increased promotional activity had seen a significant increase in business from our nearest neighbour. A domestic review had also identified new opportunities, defined market segments and outlined the benefits of collaboration.

As we now know, 2020 will be remembered for the Covid-19 pandemic that has wreaked societal and economic havoc. The confidence that was evident across the hotel sector evaporated and remains fragile as 2020 performance shapes up to be one of the worst on record.

At the end of the summer, there was some level of optimism within the industry, trading had been at a higher level than expected and business was holding up in September. However, the increased infection rate, new restrictions and local lockdown has dashed these hopes and recovery has stalled once again. As this report is written, further localised lockdowns or other disruption to the sector is very possible.

# Hotel Sector in 2020

**Background to expansion**

The hotel sector remains the largest of the serviced accommodation sectors in terms of rooms and currently has 143 hotels with a record 9,580 rooms in the market.

Behind ***Table 1*** is a story of transformation. There has been significant growth in room numbers since 2016 and there are currently over fifty projects in various stages of planning and development. Whilst, the pandemic has caused some of these to stall, the consensus remains that additional stock will come to the market, more likely in 2023 at this stage.

It should also be noted that a number of projects that started out as hotels have moved to other accommodation categories, mainly guest accommodation. Consumer demands have altered considerably over the last decade as has the accommodation which operators have adapted to meet their new expectations.

The market has seen something of a polarisation with budget hotels, normally branded, offering a straight-forward lodging product together with an increase in destination resort style properties at the other end of the spectrum. Star ratings continue to resonate with the consumer. However, social media reviews and direct customer ratings are playing a larger role in the decision-making process.

***Table 2*** shows the breakdown by grade. A number of operators have remained ungraded, either operating with a recognised brand or finding the grading framework unworkable for their product. Budget branded hotels have been separated out for the purpose of this exercise but are not a defined sector within the grading system.

The accommodation categorisation is due for an overhaul and will be amended to reflect new products. The current system has not been updated for over a decade and the accommodation landscape is a much-changed place. In addition to a review of grading, the segments within the accommodation sector may also be altered to include new types of accommodation and create subsets within existing categories. This could see extra products added and the criteria within each altered for certification and rating purposes.

| Type | Premises | Rooms |
|---|---|---|
| Hotels | 143 | 9,580 |
| Guesthouses | 77 | 704 |
| Guest Accommodation | 259 | 1,348 |
| Bed & Breakfasts | 627 | 1,860 |
| Self-Catering | 3891 | 4,640 |
| **Totals** | **4,997** | **18,132** |

**Table 1: Northern Ireland Accommodation Stock by Sector**

| Grade | No. Hotels | Rooms |
|---|---|---|
| Five Star | 4 | 426 |
| Four Star | 43 | 4110 |
| Three Star | 54 | 2346 |
| Two Star | 2 | 72 |
| Budget Brand* | 14 | 1660 |
| Ungraded | 21 | 669 |
| Awaiting Grading | 5 | 297 |
| **Totals** | **143** | **9580** |

**Table 2: Hotel Stock by Grade**

# Hotel Performance

The figures in this document have been taken from independent sources – (Tourism NI, STR, Avvio, Net Affinity, NISRA) as points of reference. The majority of the data is from STR who have a sample size of 75% of the market. This is reported on as one single destination with a division into four sub sectors: Belfast, Derry-Londonderry, Mid Ulster and Regional NI.

Hotel KPIs are generally reported over four key metrics;

- Occupancy (Occ) – Percentage of rooms sold.
- Average Daily Rate (ADR) – The net rate for the room with VAT, breakfast and commissions stripped out.
- Revenue Per Available Room (RevPAR) – Total room revenue divided by the total number of available rooms. This would include room service.
- Total Revenue Per Available Room (TrevPAR) - Total revenue from all hotel sources divided by the toal number of available rooms.

**Northern Ireland Performance 2019**

2019 was really a year of consolidation, with 2020 set to follow a similar trajectory. The effects of new supply resulted in a reduction in some key metrics, but it is important to note that around 100,000 extra hotel bedrooms were sold over the course of the 12 months. A rolling total of room sales throughout 2019 would indicate that in the region of two and a half million rooms were sold in 2019.

Of note is the realignment of the hotel sector in Belfast after a significant influx of new hotels and reduction of occupancy in Derry-Londonderry where there was a 17% room growth with the opening of one new budget property. The revenue generated by rooms in 2019 was £200m. The adjusted TrevPAR figure for 2019 suggests a total trading figure for the sector to be £650m. Hotels have significant reliance on income streams outside bedrooms. Many properties turn over more in food and beverage than bedrooms. Added to this are banquets, conferences and other leisure activity.

**Hotel Performance 2020 - Pre-Covid Trading**

The forecast for 2020 was for it to be a year of largely standing on what we have, with the market settling after a period of substantial growth. Trading at the start of the year was better than expected, with room rates holding up and a small slip in occupancy. Tour business from China and Asia had been secured, albeit in low volume, but many had seen this as an off-peak and shoulder season filler.

| Region | Occupancy 2019 (%) | Occupancy 2018 (%) | Average Daily Rate 2019 (£) | Average Daily Rate 2018 (£) | RevPAR 2019 (£) | RevPAR 2018 (£) |
|---|---|---|---|---|---|---|
| All Northern Ireland | 70.9 | 73.3 | £78.34 | £79.32 | £55.54 | £58.16 |
| Belfast | 72.5 | 75.5 | £77.81 | £80.08 | £56.39 | £60.50 |
| Derry-Londonderry | 66.0 | 69.4 | £69.15 | £66.21 | £45.66 | £45.98 |
| South West Ulster | 63.3 | 61.5 | £83.52 | £81.96 | £52.86 | £50.42 |
| Regional NI | 69.8 | 71.3 | £84.01 | £82.60 | £58.66 | £58.92 |

**Table 3: Northern Ireland Hotel Performance 2019**

| Region | Occupancy 2020 (%) | Occupancy 2019 (%) | Average Daily Rate 2020 (£) | Average Daily Rate 2019 (£) | Rev PAR 2020 | Rev PAR 2019 |
|---|---|---|---|---|---|---|
| All Northern Ireland | 46.3 | 61.1 | £68.06 | £68.86 | £31.53 | £41.96 |
| Belfast | 46.4 | 61.3 | £66.75 | £68.28 | £31.00 | £41.87 |
| Derry-Londonderry | 41.1 | 58.0 | £60.61 | £60.45 | £24.92 | £35.05 |
| South West Ulster | 48.3 | 57.7 | £77.46 | £73.31 | £37.39 | £42.31 |
| Regional NI | 48.5 | 63.1 | £73.83 | £72.95 | £35.83 | £46.04 |

**Table 4: Northern Ireland Hotel Performance, Q1 2020**

Unsurprisingly this was the first business to be cancelled due to Covid-19.

By mid-March tremors were to be felt throughout the hotel world; closure of the sector in the Republic of Ireland and growing customer nervousness saw the market all but collapse before hotels were ordered to close in Northern Ireland on 26th March 2020. A small number of premises remained open in the March to June period providing rooms for essential workers.

### Post re-opening performance

All hotels were allowed to re-open on the 3rd of July 2020. Since this date, there has been a reasonable return to trading from 50% in July to approximately 85% of bedrooms at the end of September. Whilst only a small number of hotels remain closed, room stock is being managed by larger properties, reducing supply of rooms to market, so that they can trade in a safe and secure manner.

Other properties are reducing their offering concentrating on weekend trade. It is estimated that 8,200 bedrooms were on market by the end of September. The trends over the last number of months show strong weekend trading coupled with significant increase in business from the ROI and a dramatic increase in direct bookings particularly by telephone, with booking via online travel agents generally reducing. The booking window has concertinaed with little going beyond three weeks out. Food and beverage sales have been buoyant.

Increased domestic business and  a dramatic upswing from the Republic of Ireland contributed to a better summer than many had predicted. September held up reasonably well particularly at the weekends with the resilience of the sector coming to the fore. Room rate (ADR) has held up but it is important to note that the VAT rate reduction to 5% has allowed hotels to hold their rate and offer value. It has also helped absorb additional costs that have been incurred pre-opening, as well as soften the impact of reduced numbers due to social distancing measures and increased service

| Region | OCC 2020 (%) | OCC 2019 (%) | DIFF % | ADR 2020 (£) | ADR 2019 (£) | DIFF % | Rev PAR 2020 | Rev PAR 2019 | DIFF % |
|---|---|---|---|---|---|---|---|---|---|
| All Northern Ireland | 38.4 | 73.1 | -47.5 | £77.65 | £79.35 | -8.4 | £27. 87 | £57.97 | -51.9 |
| Belfast | 38.1 | 74.0 | -48.5 | £69.05 | £78.66 | -12.2 | £26.30 | £58.19 | -54.8 |
| Derry-Londonderry | 45.4 | 70.2 | -35.3 | £69.14. | £70.35 | -1.7 | £31.42 | £49.41 | -35.4 |
| South West Ulster | 45.4 | 66.4 | -31.6 | £89.02 | £84.04 | 5.9 | £40.45 | £55.85 | -27.6 |
| Regional NI | 44.2 | 73.0 | -39.6 | £83.28 | £85.60 | -2.7 | £36.77 | £62.53 | -41.2 |

**Table 5: Northern Ireland Hotel Performance, YTD September 2020**

costs.

“Eat Out to Help Out” proved very popular with over 2.7m meals served in Northern Ireland resulting in a £16.5m pay-out by the Treasury. The majority of hotels took part in the scheme which was welcomed in the main but did pose operational challenges for the sector and some displacement of business.

Bookings were relatively strong in September with destinations in the region performing well and Belfast trading viably at the weekends. Room rates were holding up and demand throughout the week was reasonable outside urban locations. A snapshot in mid-September showed reasonable forward bookings into October with better trading than expected set to continue. Bar only service was allowed to resume on 23rd September. However, this relaxation was agreed against a backdrop of an increase in infection rates.

In October the situation began to deteriorate as Covid-19 infection levels rapidly increased. The introduction of a Northern Ireland wide curfew and localised restrictions in the Derry City and Strabane District Council (DCSDC) area have decimated trading. The COVID roller coaster has seen the sector dip once again. A consequential closure is the worst of all worlds for the hotel industry as you are effectively forced to remain open and operate at a significant loss or close with limited support.

The Republic of Ireland which had produced strong trade throughout the summer is now effectively closed off. As of the 5th of October, the south moved to level three with additional restrictions for the hotel sector. The measures in place prohibit travel beyond county borders and only permits outdoor dining. Hotels are only being allowed to serve residents.

Uncertainty about the future has been a huge factor for the hotel sector. This, coupled with growing health concerns, has had a negative impact on trading. The scenario in the DCSDC area appears to be the playbook for what is to come: hotels open, only for residents; only essential travel recommended for those living in the region and those outside the district being not advised to travel into it.  The effects of these measures in DCSDC resulted in over 40% of the hotel bedrooms being closed after eight days.  This figure may increase if the current regime remains in place for longer than the initial two-week period.

As a lockdown, circuit breaker or forced closure looms, the industry finds itself in a critical situation, a return to the difficult days of March and not on the much longed-for road to recovery. The resilience that saw the sector cope with lockdown has been replaced with stoic resolve and a fight for survival.

# People and Support

**The People**

The role of people in the hotel experience is critical. Pre-COVID, the sector supported 13,000 jobs (10,000 direct, 800 indirect and 2,200 induced). The plight of staff was the primary concern of businesses and the introduction of the Coronavirus Job Retention Scheme by the Chancellor came as a huge relief. About 90% of hotel staff were furloughed. At the time of closure, there were some layoffs and redundancies and regrettably these will continue as not all aspects of the hotel business are able to start back up again.

The sector has been identified as a vulnerable one with the furlough scheme masking the full impact of the problem. It is likely that the sector will lose between 15-20% of its direct work force (in the period from March 2020 to March 2021) through redundancies, re-deployment and natural churn. This final number will be determined by winter trading, the timing of a return to full trade and fiscal support for employees over the next six months.

**Support**

There has been a number of support packages for the hotel sector. On a local level, rates relief for the year was very much welcomed and the hope would be given 2020-21 performance that there will be a discount for the coming financial year.

The Treasury has weighed in with a number of transformative measures. The reduction of VAT to 5% until March 2021 has been a lifeline and businesses will need this to continue beyond its current end date. The Coronavirus Job Retention Scheme (furlough) allowed employers to protect staff and is still being used. The new Job Support Scheme though not yet fully explained will be required over the winter, particularly if there are lockdowns, curfews and restricted trading. The furlough bonus due in February will be welcomed but if the sector is in lockdown it is difficult to see how hotels can meet the terms to secure this payment.

The Eat Out to Help Out Scheme was a stimulus. Many felt it was the right idea but possibly introduced at the wrong time. However, it did provide much needed revenue with some businesses actually adding to their staff complement to service demand. It is hoped that a similar scheme would be put in place again in the coming months.

The majority of hotels were not eligible for the £25k or £10k grants from the Department for the Economy. New monies for apprentices are welcomed and there is hope that the age limit on apprentices will be lifted. There are other support measures for the sector on local levels including outside development.

The announcement of £9.9m additional funding for the sector from the Executive has been welcomed. This will help fund increased promotion, support and also a stay at home voucher scheme. The hope is that these funds can be deployed despite the looming threat of lockdown.

# Expansion

It may seem strange to reference development given the current state of the industry. The planning, development and funding for a hotel project takes a considerable amount of time. There are over 50 projects in various stages at this time equating to 4,250 rooms. Optimism abides perhaps, or a confidence that the market will return akin to the Romans adopting the policy that "in times of peace, you should prepare for war". There will be opportunities in the future and the 10,000 bedrooms figure could be a reality by 2022.

**Belfast**

The city has undergone a transformation, with nine hotels added over the last five years, as well as a number of large accommodation businesses in other categories. There are a lot of plans in the public domain which are still very much alive. The likelihood is that in 2021, we will see some movement on these and other schemes which are currently purely conceptual will appear. Signature Living's departure from the market leaves an opportunity with two of its sites attracting interest from another developer. There are a couple of large branded products at an oven ready stage and whilst this market may have over heated of late, don't discount new product in the pipeline.

**Derry-Londonderry**

A reasonable performance last year with a fall in occupancy, growth in rate and a new player entering the market. The region has 791 rooms including Phase 1 Holiday Inn Express with 119 rooms (a further 40 are planned). The Travelodge has closed but may return in another guise and planning is in place for the iconic Ebrington site. The season has extended slightly with weekend trade growing throughout the year. There has been an increase in non-hotel accommodation product which presents a challenge for the sector. The Derry Girls TV series, and its international launch, has built a strong profile for the city overseas. This, along with a new visitor centre, gives the region a good footing to trade once the pandemic passes.

**North Coast**

Planning continues to be the impediment to any hotel development in the North Coast. The Open brought real bounce to the region with all accommodation performing well. There are five projects live in the market. The Salthouse opened last year, The Marine Hotel made significant investment and The Bayview added on rooms. No projects have managed to break ground this year with demand for hotels in the area remaining strong. Golf interest for 2021 remains high and is a real opportunity to capitalise on a lucrative market segment.

**Newry, Mourne & Down**

A number of projects mooted are in this region, as is a lot of investment in existing properties. Killeavy Castle opened in 2019 and there is demand for resort type product in the region. However, recent developments and a possible Brexit hangover has brought any new development to a halt.

**Northern Ireland (regional excluding Belfast)**

Some projects are still in the planning phase. Finance appears to be the main hurdle for most of these. Again, resort product could present an opportunity, but the likelihood is that it will be 2022 before anything of significance is progressed to the construction phase.

# The Future

**Trading**

This is a finger in the wind exercise. Immediately prior to the sector re-opening there was talk of hotels achieving 40% of last year's trading levels (at the end of September this was 38.4%). However, with limited income streams available to the sector, a prolonged period of closure and another lockdown looming, this has been revised. The current scenario for 2020 suggests a figure as low as 30% occupancy. This would equate to just over 1m rooms sold, a massive drop from the 2.5M rooms sold in 2019!

Total revenue is more difficult to call without a reliable TrevPAR figure on which to base forecasting. There are simply too many unknowable variables in the equation. The stark reality is that hotels in Northern Ireland will sell at least one million less rooms than they did in 2019 and that overall trading will fall to under two hundred and fifty million pounds (£250m). Economists have called this a disrupted recovery. It's rather like some macabre "hokey cokey" where we move in and out of trading and crises with alarming regularity.

Current modelling is looking at truncated trading well into 2021. The scenarios are not set in stone but they see limited business for the foreseeable future with reduced air access, social distancing in place, events severely impacted and the virus still in our midst. A vaccine appears to be the ultimate panacea and hopefully this will come sooner than predicted.

There are a number of positives for the industry. Hotels are a brick and mortar proposition making them more resilient to market forces. During the last global financial crisis, the sector whilst impeded did not shrink dramatically in terms of businesses. Consumers' propensity to travel has not gone away and there will be pent up demand which should speed up recovery. The reputation of Ireland as a destination remains good with high interest levels for 2021.

An opportunity for the sector would be to capture and convert monies that Northern Ireland residents spend abroad into staycation business. A similar ambition for customers south of the border can reap considerable benefits in 2021. If Summer 2020 taught us one thing, it was that we can attract visitors from the south and that there is a significant market that we can tap into. Northern Ireland residents spent £300m locally in 2019 and some £888m abroad. If some of the overseas spend can be redirected in the next six months and consolidated for Summer 2021, then the sector stands a good chance of trading in a sustainable manner.

Air access is more difficult to call, with 85% of the island's air access gone and the aviation sector in disarray. As an island destination, access is a key factor for growth and re-establishing the route network we had pre COVID-19 will be a huge challenge. Ferry access has fared slightly better and offers a direct link to our largest overseas market, GB. With no quarantine existing between Northern Ireland and Britain this may be another lucrative market in 2021.

Market failure is an inevitable outcome of the pandemic. The scenarios that have been modelled are catastrophic. However, with support they could be considerably mitigated. Since the start of the pandemic, one hotel has closed, and one has opened. The sector has made a £650m investment over the last five years and the availability of Government backed loans may help stave off closure. The value of buildings and the nature of the business may see ownership change with trading continuing. The wider industry may not fare so well. Many smaller businesses which have supported growth, added to the visitor experience and make Northern Ireland an exciting destination, may not have the asset base to survive. The infrastructure that has been built up over the last twenty years may be fractured particularly if the international market cannot return for the foreseeable future.

**Concerns**

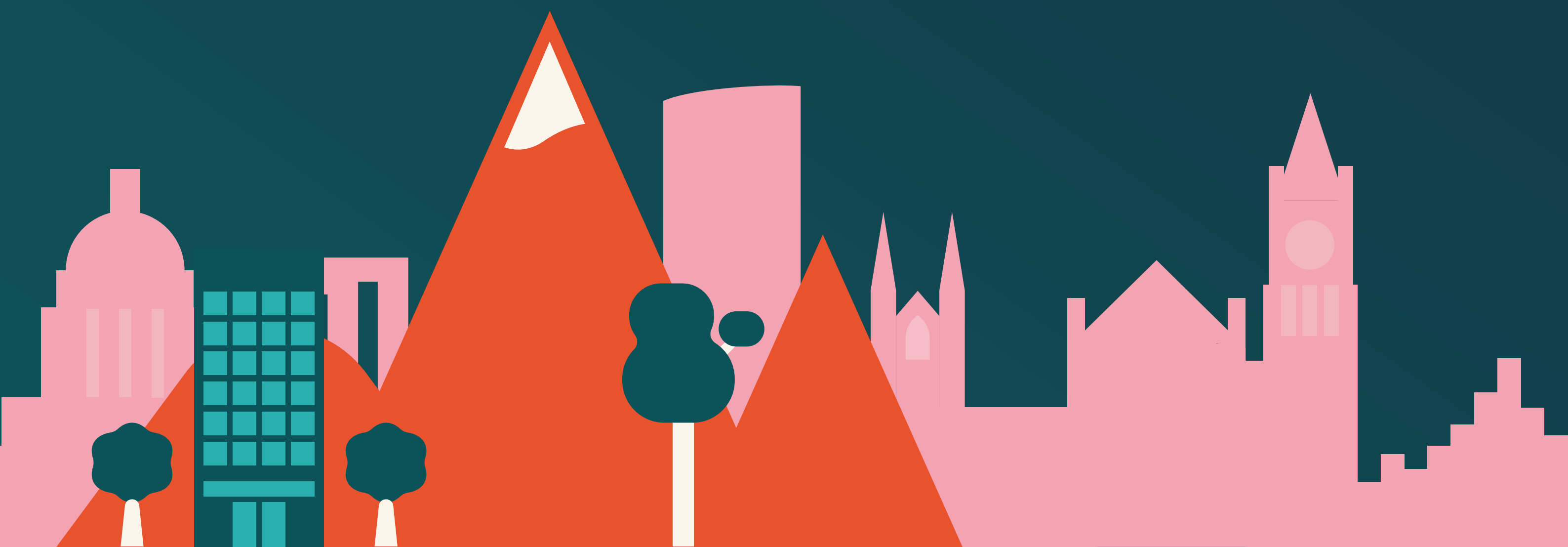
Apart from the cost of doing business and the end of the furlough scheme which may now have been partially resolved with the amended Coronavirus Job Support Scheme, the hotel industry has concerns about the viability of business particularly with consequential closures as the result of restrictions. The current framework remains a challenge with no conferences, restrictions on weddings and dining numbers curtailed. The current closure of the Republic of Ireland market is a significant opportunity loss and reduces the market even further.

Mandated closure whilst not welcomed allows businesses to avail of support where available. The circuit breaker measure is causing anxiety and a mixed message from Government has brought about a collapse in business. This may result in additional redundancies and a loss of skills which will impact the industry's ability to bounce back in the medium term.

Cashflow through the Winter and an increase in borrowings weighs heavily on the minds of many in the sector and the advent of what appears to be a second wave of COVID-19, has exacerbated these fears. Many now see Christmas as effectively cancelled. This is traditionally a time when hotels build up reserves to see them through a lean first quarter.

The impact of Brexit is yet to be ascertained. The hope is that a deal can be reached which will leave us in a good trading position and that costs will not rise. The issue may have become less of a priority due to COVID-19, but its effect may cause longer term damage.

> “One million fewer rooms sold in 2020.”



# Conclusion

This is going to be a story of three R's: Resilience, Recovery and Reputation coupled with two significant S's: Survival and Sustainability.

Resilience has been a key element in trading to date and will continue to play a role in the sector's survival. Hoteliers have proved to be a stoic group in the past and this will stand them in good stead in the coming year.

Recovery will be disrupted, and it will be a question of making the best of opportunities, and making sure that our voice is heard. The hospitality sector is not in competition with the health lobby. We have an important role to play in not only the economic structure of Northern Ireland but we are also part of providing a service which helps with the well-being of society as a whole. Recovery, for the hotel sector, would be a return to normal business circumstances. The industry recognises that access, customer sentiment and the fiscal impact of the pandemic will all play a part in this. Whilst, difficult to call, the timeline for recovery is extending with many seeing this being a two-three-year process

Support, by way of an extended VAT reduction, a significantly reduced Business Rates bill for the coming year and further staff supplements, will be required if the sector is to survive.

Promotion with the benefit of a fresh new brand should help us secure new business in the long term; the secret is ensuring that we survive to do so.

Survival of tourism is crucial to the Northern Ireland economy. If infra-structure falls away, it will be challenging for those who remain in business to attract the visitor if attractions, experiences and accommodation choices are reduced.

The reputation of the sector as a responsible one has been noted and it is important that we adhere to this path. As a destination our reputation remains intact and this will allow us to attract visitors when the pandemic has subsided, and it is safe to do so.

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