



## Hotel Sector Breakfast Briefing - Summary

Wednesday, 28 September 2016

**Aiden Murphy** of Crowe Horwath outlined key performance achievements of both the Dublin and regional hotel markets, as published in the 2016 Crowe Horwath Hotel Industry Survey, and benchmarked these against previous peak levels and the low point during the recession. Key take out points include:

- Overall, the strength of demand for hotel rooms continued and 2015 was a record year for both Dublin and regional hotel occupancy levels.
- Occupancy for Dublin at 81% is a natural ceiling and going forward the opportunity for Dublin hotels to increase profit will be through better yield on room rates.
- The Dublin market needs 5,000 additional rooms and these can be absorbed if delivered over a 2-5 year time horizon.
- Average net profit before finance cost per room was €17k in 2015 for Dublin hotels and is now at a level that supports the building of new hotels.
- Regional occupancy levels of 66% ensured competition remained strong for hotels outside Dublin and from the low point in 2010 average room rates are only up €13 for regional hotels as compared to €33 increase for Dublin hotels over the same period.
- The net profit per room for regional hotels is just over 50% of that achieved by Dublin hotels and, as construction costs would be similar for Dublin and regional location builds, we are unlikely to see any new built hotels outside Dublin in the medium term as these projects would not be feasible.
- However in certain key locations where occupancy is greater than 70%, Aiden Murphy encourages hoteliers to consider investigating if there is scope for adding rooms to their hotels as this would allow these hotels benefit from greater economies of scale.
- Aiden acknowledged the big concern and unknown for the sector was Brexit. Crowe Horwath carried out a short survey in the week before the briefing which established the view and sentiment of hoteliers in border counties, Dublin and other regional markets.
  - In the 3 months since Brexit vote, the impact according to hoteliers was minimal. The limited impact was predominately felt by border county hotels.
  - For the next 12 months both border county hotels and Dublin hotels see demand softening from Northern Ireland and GB Markets. Dublin hotels however see both domestic market and other overseas markets absorbing this capacity and rates will continue to grow. Border counties however see both occupancy and rate being somewhat down.
  - Overall the sentiment suggests that the Brexit issue will be more of a speed bump than a road block in terms of impact on hotel sector performance.

**Isobel Horan** of Cushman & Wakefield outlined a number of key trends for the marketplace:

- 2016 transaction levels are likely to be similar in numbers to 2015 and 2014.
- A feature of the market was greater throughput of regional hotels and this in turn has led to buyers being more likely to be domestic rather than international.

- Going forward consensual sales would be more prevalent than receivership sales as the banks had largely dealt with their distressed hotel loan books and that off-market deals were becoming more frequent especially with the non bank loan acquiring funds.
- Isobel looked at pipeline for Dublin where 8,850 rooms are in the planning process, with Dublin 1 & 2 as expected the locations for greatest share of new planned product. The new area of Dublin 8, with 892 rooms in the pipeline, was identified as an emerging location - close to the city centre with land costs that make a return on investment feasible.
- The fear is that with a delay in delivering new room stock, too many new hotels may open at the same time causing a dip in profit performance due to competitive pressures created by the start-up operations.

The guest speaker was **John O'Sullivan**, Chairman of Hodson Bay Group, who described the journey of three successful openings - the Hodson Bay in 1992, the Galway Bay in 1998 and the Sheraton Athlone in 2008:

- John outlined his current project - a 257 bedroom hotel in Dean Street in the Liberties, Dublin 8, just seven minutes walk from Stephen's Green, which is awaiting a planning decision from An Bord Pleanála. He is hopeful it can be delivered early in the cycle of new hotel supply entering the Dublin market to take advantage of current market demand
- The core principal of each of these hotels has been self developed projects, where the Hodson Bay Group internal team play a key role in design and delivery. Critical to success is acquiring land at the right price to ensure overall project feasibility, accurate budget forecasts for the build, a marketing strategy that start twelve months in advance to ensure maximum impact at opening and support from the local community.
- The experience of operating in the regional market ensures a focus on quality food and beverage, is retained for their Dublin project, as it is these outlets that will de-risk a project and support occupancy levels if demand softens.
- The early focus of the group was on expansion of the Hodson Bay Hotel as sustained demand enabled them to take advantage of economies of scale on the same site.
- The Hodson Bay Group has drawn on international best practice when designing the Dean Street hotel. This includes ensuring the ground floor areas provide a lively and inviting space to eat, drink and relax and feel part of the local scene. The room design is efficient to ensure the room count is optimised, supports communication and information needs of tech savvy travellers and is capable of being thoroughly, efficiently and hygienically cleaned. The interior design also draws on their operational experience in terms of practical finishes to ensure durability while still impressing the guest.
- Each hotel in the group is stand alone in terms of management and finance functions and so expansion to a new location does not distract from existing operations.
- The Hodson Bay Group has always had a focus on a corporate culture based on the three pillars of respect for the customer, respect for the employee and respect for the local community and this has delivered for the group over the years. The Group invest in IT, ensuring accurate information is available to aid efficiency and support decision making. The combination of a loyal and long standing senior management team , company directors and family members fuel this best in class culture and the drive to take on new projects and expand the group's horizons.

You can view a copy of the presentations and the results from the Brexit survey on the newsroom of Crowe Horwath's website – [www.crowehorwath.ie](http://www.crowehorwath.ie)

**For further information on the above or if you would like to discuss any forthcoming projects please contact:**

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