



Carton House Hotel in Maynooth, Co Kildare, has been put on the market

CHECKING IN AND CASHING OUT

Stronger air links with North America have made high-end hotels seriously profitable, and analysts say the buyers who got them cheap could be about to make a killing



Róisín Burke

The entire Irish hotel business has made a major comeback in the past couple of years, but the stand-out performer has been the luxury market. From four and five-star country resorts to swish city properties, upscale hotels have delivered vastly greater profits and revenues than their mid-range or budget peers since the recovery.

As such, they have been desirable assets for investors looking to buy into Ireland's recovery.

"They are by some way generators of the highest profit right now," said Aiden Murphy of Crowe Horwath, an accountancy firm that runs an annual survey on the industry. "It has been a phenomenal turnaround."

Over the last three years particularly, profits at top-grade hotels have been rising by around 12 per cent a year.

No wonder then that even as property values climb, hotels continue to change hands regularly, often in deals worth tens of millions and in hotly contested auctions.

Two of the latest on the market – Carton House and Mount Wolsley – have attracted substantial interest, and wealthy

individuals and funds alike have checked into posh hotels sales. The early movers capitalised on bargain price-tags from bank and Nama firesales, and now find themselves sitting on potentially rewarding returns, albeit having had to in many cases plough a wedge of capital into reviving the faded grandeur of their acquisitions.

Many of these distressed buyers will move to cash in over the next while, and deal rates for luxury hotels are expected to continue to be brisk, even as prices rise.

There are only 35 five-star hotels in Ireland, and only five in Dublin. That has helped drive room rates higher and produced attractive returns.

But there are market threats and uncertainties attached to these plush prospects too. The British tourist market is Ireland's biggest, and weak sterling and Brexit may already be having an impact.

And the costs involved in new builds is limiting opportunities for new luxury hotel developments, despite the demand for more, some in the market say.

The deals will go on, with new dealmakers

Tipped to sell for around €60 million, Dublin's historic Gresham Hotel ultimately went for over €90 million towards the end of last year. A shortage of this type of property pushes up prices, according to Murphy.

"If you had two Greshams, you'd sell them in the morning because of the very significant shortage of rooms due to the



Dublin's historic Gresham Hotel, which went for more than €90 million



Trump International Golf Links and Hotel Doonbeg in Co Clare



The picturesque surrounds of Mount Wolsley Hotel in Tullow, Co Carlow

mismatch between opportunities to invest and supply in that marketplace. Very little can be bought in terms of a hotel property in Dublin at the moment."

Going forward, there will be a different profile of buyer from the distressed asset acquirer, Murphy also said.

"In the past, there were a lot of forced sales or exiting. Now more medium to long-term investors will come in and more opportunistic ones will exit. What probably has happened to some of these hotels is they may have been refinanced out of tax deals and some of the current owners, with values going to a higher point, may be saying 'We'll trade the hotel and take our profit'."

The new entrants to the market will find far fewer bargains, however.

"We've now come to a point whereby the prices being paid are equivalent to the replacement price of the asset," said Murphy. "So it is coming to a high point for what people would pay, whereas before it was 50 or 60 per cent replacement costs."

That said, deals will continue. "I think for the next few years, three or four hotels a year at the upper end of the market will transact."

What is driving this posh hotel panache for investors? Firstly, there's the incredible return of profitability for four and five-star properties – at values double that of other hotel types.

Profits per room are double that of a mid-price hotel, and quadruple that of a budget one.

"Luxury hotels were the hardest hit in the recession," said Murphy. "Profit fell as low as €3,000 per room, against a cost of between €300,000 to €400,000 per room to develop."

"So this amounted to a 1 per cent return on investment – not even sufficient for reinvestment and upkeep."

"But in the last three years, revenue per room is up in the order of €145 RevPar (revenue per available room), and profits have gone from €10,000 per room up to about €25,000 per room in 2016 – it's a phenomenal turnaround."

And now the average rate of an up-market hotel room per night is between €148 and €200, research done by Crowe Horwath shows, up by 40 per cent since the recession.

Luxury hotel room occupancy is at

of a touring route from Donegal down to Cork and the scenery involved make Ireland very attractive."

As for the visitors from our nearest neighbour, British visitor numbers are down by 6.5 per cent year-on-year, and the long term impact of that remains to be seen.

Outlook for the future

As we saw from the impact of the recession on luxury hotels, this market is intrinsically linked to a prospering economy – here and overseas. The forecasts, in as much as they can ever foretell, are positive.

"The Irish domestic economy looks good, with Davy predicting five per cent growth, and it's been pretty sustained to date," said Damien Gaffney, head of the hotel operation at Tetrarch, which owns four luxury hotels.

"The luxury market over the last three or four years since we've been in has shown sustained growth. Most of our business is domestic, and the health of the Irish economy is most important to us."

Gaffney said that aside from Mount Wolsley, where it wants to recycle its capital, Tetrarch has no plans for further disposals but he thinks this process is going to accelerate for other owners.

"I would imagine given the timeline, this will happen. A lot of the portfolios bought in 2012/13 would have a hold period of three to five years, and a lot of funds are coming up on that now. You're going to see people moving some of those things on, and they will be happy to exit."

Gaffney and other industry figures think there is a dearth of five-star hotels compared to other destinations. He said that in recent times "there haven't been any five-stars delivered into the city".

This is leading to a lot of investment in the existing five-star market, with Michael Smurfit's K Club adding on rooms and Mount Juliet doing the same. In Dublin, the Merrion is extending.

Murphy suggested that because there's a premium to be had at the upper end, some four-stars may start repositioning as five-star offerings by upgrading their facilities.

"But even at current profit levels, there won't be a business case for a new five-star hotel – it will be upgrades and expansions," he said.

The threats to be considered

"The build cost per square foot versus revenue is prohibitive," said Gaffney of the prospect of Tetrarch or anyone else developing a new five-star hotel.

"You would have to be able to deliver rates far above present levels. For that reason, we've never entertained getting into building, except the Marker, which was kind of pre-baked."

Tetrarch is building hotels in Dublin but they will be boutique budget and other formats that are underserved, not luxury – for those cost reasons.

Murphy said: "There are only 4,000 rooms that are five-star out of a market that has about 60,000 rooms. And 40 per cent of those five-star rooms are in Dublin."

Occupancy is strong, but the rates are still a bit more challenging, said Gaffney. "All our hotels are profitable, but there's a bit to go yet."

The Marker, like other Dublin city-based five-stars, is more influenced by Brexit, getting as it does much of its trade from rugby matches, concerts and conferences. "But our US business is up slightly and significantly higher, which has somehow managed to offset that."

There is an element of sensitivity by visitors around value for money, including currency rates, particularly sterling at the moment, Murphy said.

"We need to look that," said Murphy. "And we can't see ourselves being a destination purely to the US."

Then there is the global market dependence. "From 2008/2009, we now know how sensitive the market is to international crashes," said Murphy. So while supply of more luxury hotels is needed, so is a sober approach to that.

"Supply growing in the order of 2-5 per cent, ie between 200 and 250 rooms per year, that would be welcome and sustainable," he said.

Luxury hotels: five years of big deals and big players

Most recently in the headlines as the venue for Rory McIlroy's wedding, Ashford Castle hotel was sold in 2013 for €20 million.

The Trump International Golf Links and Hotel Doonbeg was bought by you-know-who for €8.7 million in 2013.

Kennedy Wilson paid €120 million for The Shelbourne, and around €30 million for the Portmarnock Hotel, both in 2014.



Dublin's five-star Intercontinental Hotel was bought by a group backed by billionaire John Malone (above) for about €50 million in 2015. The previous year, it snapped up The Westin for €65 million.

Malone cast his eye over Mount Juliet, but Tetrarch Capital ultimately acquired it, as it did Mount Wolsley.

The five-star Powerscourt Hotel is now also Tetrarch-owned, as is The Marker, which was bought as a shell in 2011, done up and opened in 2013. It all adds up to circa €50 million worth of upmarket hotels.

The same year, the Chinese Kang family paid some €20 million for the Fota Island Resort in Co Cork.

American games developer Adrian Carmack bought the five-star Heritage Hotel in Laois for about €5 million.

Lough Erne Resort was sold to a fund connected to the Chicago-based Saliba family in 2015 for €11 million.

Denis O'Brien bought Ballinahinch Castle in Connemara in 2013 for around €6.5 million.



JP McManus (above), also joined the luxury hotels club, buying Adare Manor for about €30 million in 2015.

So too did returning immigrant businessman Seamus Walsh, acquiring Waterford Castle for over €6 million that year.

The Castlemartyr sold that same year for over €13 million to an Asian consortium.

A Davy fund led by high-net-worth Austrian Thomas Roeggla bought Farnham Estate last year for €26 million. A year earlier, he bought the five-star Aghadoe Heights Hotel for €6 million.

Farnham and Lyrath Estate, bought by a consortium for €25 million, were the two biggest deals of last year outside Dublin.

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