



HOTELS OUTLOOK



POISED FOR GROWTH

With a record 9.6m overseas visitors visiting Ireland in 2016 – a 10.9% increase on 2015 – the Irish tourism industry is a hugely important part of the economy.

Accounting for almost 4% of GNP and total revenues of €8.25bn in 2016, it is the lifeblood of many regional economies throughout Ireland, providing jobs for more than 220,000 people.

A key component of the tourism industry is the 821 hotels with over 58,000 bedrooms that welcome guests from all over the world. In 2016, foreign exchange earnings from these international tourists amounted to €6.49bn, an 8.6% increase on the comparable figure for 2015.

Having come through a difficult period during the recent economic downturn, the Irish hotel sector has been performing well over the past three years on the back of growth from international markets, greater operational efficiencies, investment in new product and an increase in demand from the domestic market.

“The sector is firmly back on track and most hotels reported growth in both revenue and profitability during 2016 – particularly in Dublin, which is ahead of the rest of the regions,” says Mairea Doyle-Balfe, Director, Hotel Tourism & Leisure, Crowe Horwath.

This is borne out by a June 2017 survey by the Irish Hotels Federation which noted that more than three quarters (76%) of hoteliers around the country reported a strong first half of 2017, with a fair degree of optimism prevailing for the remainder of the year.

“North American business has grown in recent years from a previous high of 1.07m in 2007 to 1.8m in 2016,” says Mairea.

US visitors have continued to grow this year, with an increase of over 21% for Q1

and Q2 in comparison to the same period in 2016. “While the UK is still the biggest market, accounting for 3.9m visitors in 2016, the sector’s reliance on the UK as a percentage of overall international visitors is less.”

“After a period of growth, factors such as Brexit and maintaining competitiveness while increasing room rates are challenges facing the industry,” she says.

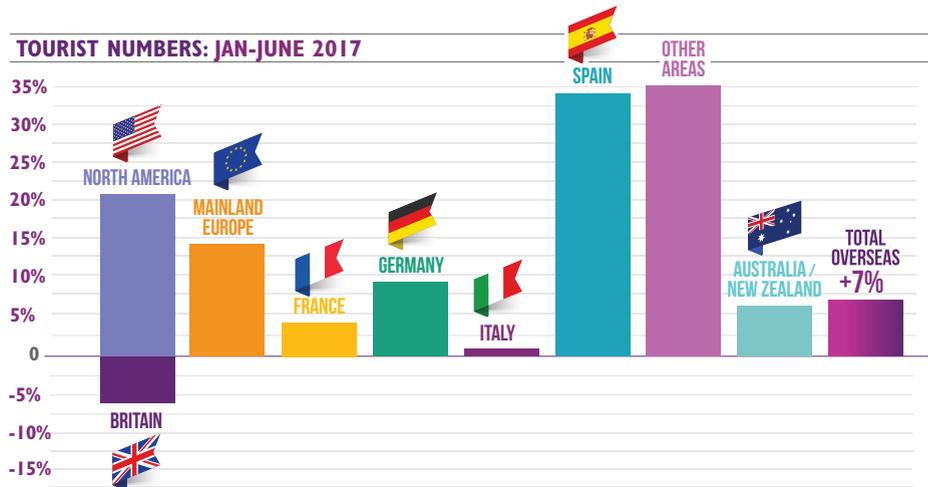
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With Brexit looming large on the horizon, its impact is already being felt in certain locations, most specifically in relation to the euro/sterling exchange rate, she adds.

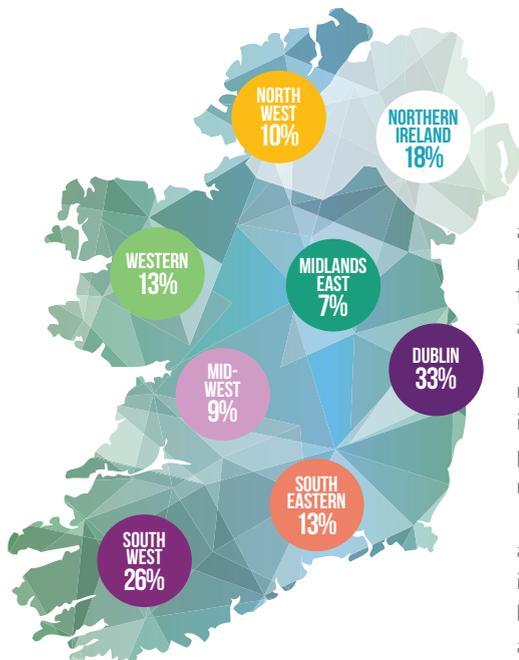
“We saw an immediate impact from Brexit and the Sterling exchange rate in places like Donegal and other border counties that can be reliant on cross-border tourism. The impact for the rest of the Country has been felt this year with a reduction in UK visitors to Ireland of 6% in comparison to last year. In the future, I think the real impact of Brexit could be felt in changes to the domestic economy and domestic consumer spending, which is an important part of revenues for regional hotels in Ireland. The off-set of this for Ireland is likely to be additional US and European tourists coming here and this is already evident in the most recent tourism figures this year.” >>



The above is a comparison with Jan-June 2016 period

Source: CSO & Tourism Ireland

UK VISITOR DESTINATIONS IN IRELAND 2016



Source: STR Global

Some of the more immediate challenges facing the sector, she says, include staffing, increased operational costs and the need for some hotels to invest in their premises. "From an operational perspective, staff recruitment and retention are challenging.

There is a skills shortage in certain departments in hotels. Chefs, for example, are highly sought after across the industry. Due to the nature of the business, hotels are also finding it hard to retain good staff, particularly in Dublin where it's a lot more transient and staff can move around a lot more. All of this is also contributing to higher staff costs overall.

"One of the positive outcomes from the recession was the focus on cost control. During this time, hotel managers became more aware of their costs and made amendments where possible to manage them more efficiently and effectively. However, we are now seeing increases in some cost areas, specifically in payroll and insurance," says Mairea.

"One of the key challenges facing any business is sustainability – this is particularly so in the hospitality industry. To future-proof their businesses, hoteliers need to really understand their customer base in terms of their product offering – this should also help when making capital expenditure decisions.

"It might seem obvious, but hoteliers really need to understand how their business and customers connect. The hotels that do this successfully are constantly adapting to meet the needs and expectations of their

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customers, while maintaining standards and understanding the different trends in the market. This highlights the consistent need to focus on service and training, which will always be a key feature of the hotel industry."

The recent IHF survey noted that the vast majority of hotels (91%) indicated that they intend to undertake some capital expenditure projects during 2017, with most planning to refurbish and redecorate their premises and 15% planning to extend them. The survey also highlighted that 43% are planning to invest in guest technology, increasing the broadband speed available in their properties as well as offering the latest in Smart TVs.

"Over the last five years, there has been a restructuring in the marketplace with over 170 hotels changing ownership. Many of these have been purchased at below their replacement value, which has allowed new owners to reinvest in the product, increasing revenues and profitability. As the market improves, competitor hotels are now reviewing the potential to invest in their properties to maintain and grow market share. However, the level of investment needs to be measured to ensure that the return is calculated and is relevant to the hotel's market.

"Some of this capital expenditure is not visible to the customer as it relates to back of house facilities such as new

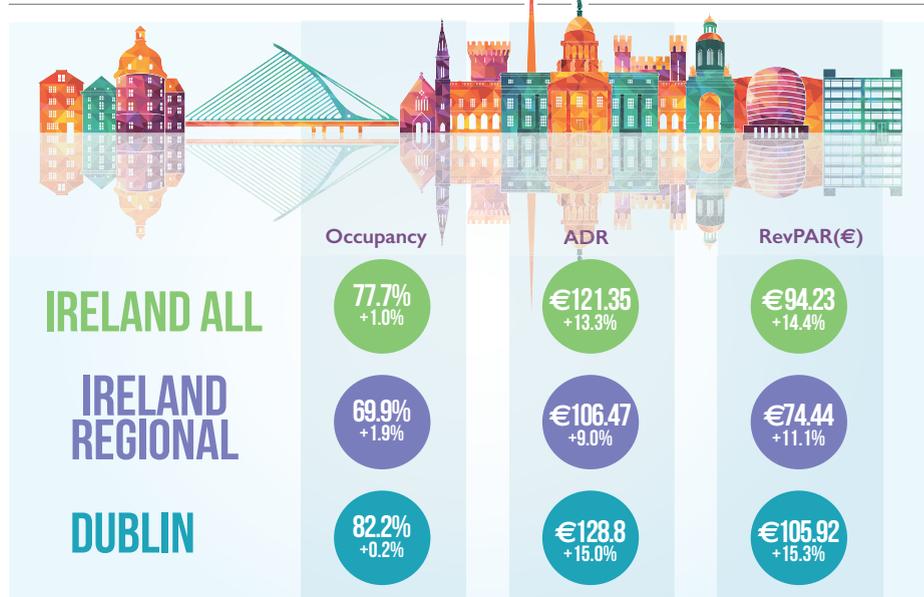
kitchen equipment, boilers or fire safety, for example. Capex needs to be planned and we would recommend, where possible, a furniture, fixtures and equipment reserve as a percentage of revenue, which will allow a hotel to plan both front and back of house needs and a rolling programme of work."

Mairea also points out that the lack of supply in the Dublin market is having an impact on the sector: "The lack of supply in addition to the increasing room rates in Dublin is having an impact on some market segments, especially the short-break and conference markets when comparing Dublin to other European cities. Also, the lack of large conference venues, access from Dublin Airport and the need for more public transport in and out of the city, are all issues that need to be dealt with."

While she says the immediate outlook for the sector is positive, it is important that the marketing efforts of Tourism Ireland and Fáilte Ireland continue to be supported by the Government.

"We have seen some very good tourism growth over the past few years thanks to these organisations. It's important that we keep that momentum going and that we build on what has been achieved. The Wild Atlantic Way has been a successful campaign and it is hoped that Ireland's Ancient East will be as successful. To maintain growth and sustainability, we need to ensure that we continue to invest in promoting Ireland as a destination. If hotels continue to invest in their product and deliver a great service to their customers, the future is bright, and I think we can compete even better amongst other financial supports and services on the worldwide stage." ■

TOURIST NUMBERS SUMMARY: FULL YEAR 2016



Source: STR Global

A BRIGHT FUTURE AHEAD

With 2017 set to be a record year for the Irish tourism industry, the medium-term outlook for hotel operators remains very positive, according to **David McCarthy, Head of Hospitality & Tourism, AIB Business Banking.**



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As one of the leading providers of finance to the Irish hotel sector, he says lending to the sector has increased significantly in recent years as hotel operators seek to develop and grow their businesses. For AIB's part, over €300m was approved for lending to the sector during 2016, says David.

"Due to cashflow constraints following the recession, many hotel operators were starved of capital expenditure as they sought to cut back on spending. Now, however, most hotels require capital investment in short term to protect their market share and allow them to grow their business. The level of investment required for a property forms an important part of our analysis of an operator and this should form an integral part of the cash flow planning for all hoteliers," says David.

"As a bank, we remain cashflow focused lenders. When assessing any request for finance, one of our primary focuses is on the cashflow of the business and the ability of the operator to service any debt from this cashflow. The strength of the management team and the ability of the property to withstand potential stressed scenarios are also key areas of focus in all assessments."

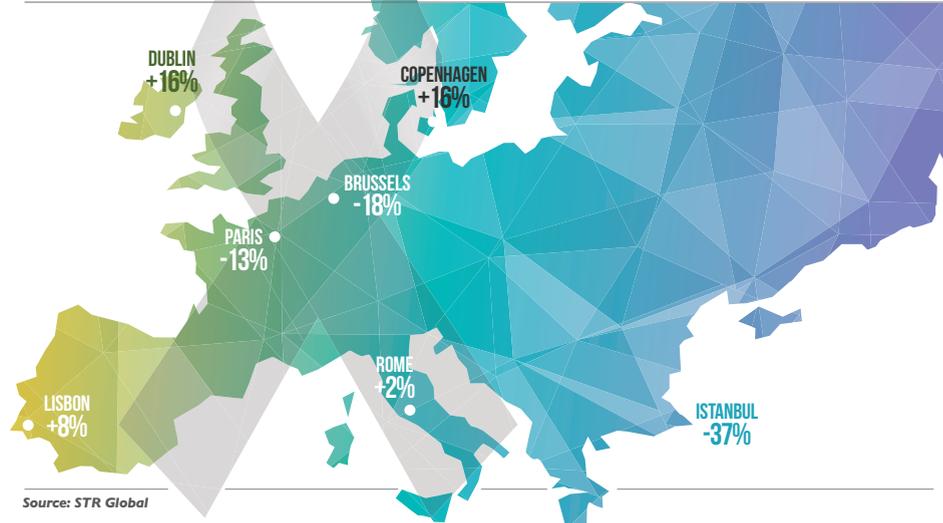
He says that an important component of any hotel operator's business plan is a customer-focused digital marketing strategy.

"We encourage hoteliers, like any other business, to stay on top of emerging trends in digital technology as travellers have become much more tech savvy and prefer to do their research and bookings online. Hotels need to provide high quality digital offerings which promote customer connection, interaction and emotional experience.

"Reducing reliance on Online Travel Agents (OTAs) and getting customers to book directly with hoteliers should be a primary focus for increasing profitability in the face of rising costs elsewhere. Furthermore, failure by hotels to embrace changes in digital technology could result in dilution of their brand and loss of market share," he adds.

While technology will continue to play an important role in both the marketing and sales functions, hotel operators also need to keep abreast of changes in consumer behaviour, says David.

IMPACT OF TERRORISM - REV PAR CHANGE 2016 VERSUS 2015



Source: STR Global

"It is important for businesses to stay on top of market dynamics by understanding consumer behaviour and taking decisions accordingly. Never before has there been more information and data available to hotel operators to help them make informed decisions about what consumers want as well as when and how to reach them. The enormous amount of data that is available to them can help make data analysis an important tool for growing their businesses. Understanding the data can drive the simplest to the most complex decisions like when the optimum time of day to advertise on social media is and what type of social media to use. Analysis of historical data sets also helps businesses when it comes to budgeting, forecasting trends, making recruitment decisions and optimizing resource utilization."

But he points out that there are also challenges facing the sector: "We are seeing evidence of increasing pressure on wage levels across the industry and hearing about difficulties in attracting and retaining staff. Our expectation is that these pressures will not ease in the short-to-medium term so it is incumbent on operators to seek out other areas to reduce this cost base. This may be through energy efficiency initiatives, a reduction in OTA commissions, laundry expenses, professional fees and better rostering of staff."

Although the outlook for the sector is bright, hotel operators need to be mindful of the implications that Brexit might have on their business, says David.

"With 42% of visitors in 2016 coming from Great Britain, the hotel industry across the whole of Ireland could be impacted by currency movements and the implementation of hard borders. It would be remiss of hoteliers not to understand who their customer base is and in cases where they are largely reliant on visitors from Great Britain to seek to diversify."

"Along with Italy and Portugal, Ireland would be seen as a safe haven destination and has benefitted as a result. Recent terrorist acts in the likes of Istanbul, Paris, London and Brussels, have damaged consumer confidence with a resulting impact on RevPAR in these locations."

Overall, AIB has a positive view of the hotel sector and remains committed to supporting it. "The operators in the sector have proven themselves to be resilient in the face of one of the worst economic recessions ever witnessed. Through the restructuring of debt for challenged borrowers and provision of new facilities to new and existing clients, AIB has an in-depth knowledge of the sector and has demonstrated a clear appetite to lend to and support it. We have a team of dedicated Relationship Managers spread across the country, supported by a central sectoral team which is mandated to work with and provide insights to customers. We will continue to support them through the provision of working capital facilities, capital expenditure/ acquisition loans, asset finance, merchant card services as well as other financial supports and services which the bank offers," concludes David. ■

CASE STUDIES

Two well-known hoteliers and customers of AIB share their views about the Irish hotel sector.



Although he will always be remembered as the manager of Donegal's first ever All Ireland winning football team in

1992, **Brian McEniff** (above, inset) also presides over one of the country's leading hotel groups, Brian McEniff Hotels.

A native of Bundoran in Donegal, where he first entered the family hotel business in the 1950s, he later went on to study hotel management in the College of Catering in Cathal Brugha Street before heading to Canada where he worked in the Royal York Hotel in Toronto, Canada for four years before returning home.

Now the company boasts six hotels, the majority of which are located in the north west of the country. These include the original family hotel, the Holyrood Hotel in Bundoran; the Great Northern, also in Bundoran; The Westport Woods Hotel & Spa as well as two in Sligo- The Yeats Country

Hotel and the Great Southern. The sixth hotel, the popular Skylon, is in Dublin.

With several generations of McEniffs working in all the hotels, Brian says the group has always prided itself on being a family-run business and this has been a big selling point for the company down through the years.

"As we have family working in all the hotels, it's an important consideration and we try to sell that as part of the overall package. We don't always get it right, but you do your best and I think our customers like that family touch that you can't get in a lot of larger hotels," says Brian.

Keeping up with the latest trends in consumer behaviour and trying to constantly develop the product is paramount, says Brian.

"We are always looking for new ways and means of doing things better and trying to keep up with what our customers want and how we can make their stay with us more memorable and enjoyable. And as a lot of our hotels are family hotels, we also have to ensure that all age groups are catered for and that there's entertainment there for them morning, noon and night," he says.

With Brexit on the horizon, he says that is a concern for the all hotels operating in the north west and in border counties.

"Brexit is still the elephant in the room and nobody knows what the outcome will be but we are preparing for all eventualities. Northern Ireland would account for between 70-75% of our business in the north west so it's a big concern. But I do think it will sort itself out in time but there is still the fear factor there," he adds.

"We've been through two recessions in the 1980s, the 1990s and then the one at the end of 2007 which knocked the wind out of our sails. But we've managed to keep going and while we had to really work hard, great credit goes to AIB for sticking with us and we worked through the worst of it. We've always been AIB customers and have enjoyed a strong relationship with the bank down through the years."

"Finally, we have a great staff base, some of whom have been with us for over 30 years and without whom we could not provide the care and attention to our customers that they expect and deserve," he concludes. ■

Like the Brian McEniff Hotel group, a strong family and customer ethos has played a key role in the success of the popular Kelly's Resort Hotel in Rosslare. "We have



always had a very strong customer focus in the hotel. I often say to our staff, some of whom have been here for over 30 years, that it's not me who pays them but our guests and that is true because they are the people who pay the wages and the bills," says **Bill Kelly**, (above, inset) managing director of the hotel.

"Every member of staff goes out of their way to ensure that all our guests have a memorable experience when they stay with us and this has been very important in building up customer loyalty and generating repeat business. We can get the physical product right for our guests, but it's the staff who get our customers to come back again and again," he says.

"Our market is predominantly the home market and that is driven by our location as we are only two hours from Dublin, Limerick and Cork."

While the hotel does use social media as a marketing channel, Bill says that it's used mainly to maintain a brand presence in the marketplace.

"Social media does play a role but probably not as much for our customers. We do have an ongoing presence on Facebook, Instagram and Twitter and it does help attract a new younger customer. It's also important for us to keep that presence but you don't necessarily get direct business from it," he says.

According to Bill, around 85% of the hotel's customers come from the Republic of Ireland, with the balance coming mainly from Northern Ireland and the UK.

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An important factor in the hotel's success has been its willingness to reinvest in refurbishments and upgrades down through the years. "Hotels will always need work because they can get tired very easily because the usage is high. We have carried out a lot of redevelopment work over the years and we've just finished a €2m refurbishment that included a new laundry and new kitchens. We are not looking for a quick return on this either, it will come over a number of years. It's important that hotels continue to reinvest if they want to remain competitive," he adds.

A long-standing client of AIB, Bill says the hotel has enjoyed a good relationship with the bank down through the years.

"We have had a great relationship with AIB and even throughout the recession, it was always very supportive of the work we have carried out," he says. ■

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