



UK Hotel Market Covid-19 Impact & Recovery

November 2020

Foreword

The ongoing COVID-19 pandemic has caused social and economic disruption on a global scale and brought the international travel, tourism, airline and hotel sectors to a virtual standstill. The constant changes in the evolution and suppression of the virus' continued rampage, opening and closing of countries' borders, creation of temporary travel corridors and, imposing and lifting of quarantine requirements has made international and inter-regional travel extremely difficult across Europe. This makes it extremely challenging for businesses to plan ahead, with booking windows for guests greatly reduced. Operators have had to continually adapt their businesses to comply with government intervention and ensure the safety of their guests as much as possible, all the while with limited certainty on when demand will bounce back and how the recovery will look.

This document aims to set out the key milestones of the past 9 months, how they have affected the hotel sector and what this means for the transactional market. The hotel team at Christie & Co have been active during this entire time, and we've outlined our experience of the impact that this disease and its preventative measures have had on the sector. We hope that the following pages serve as a useful guide when looking to understand some of the impact that COVID-19 has had on the UK's hotel businesses:

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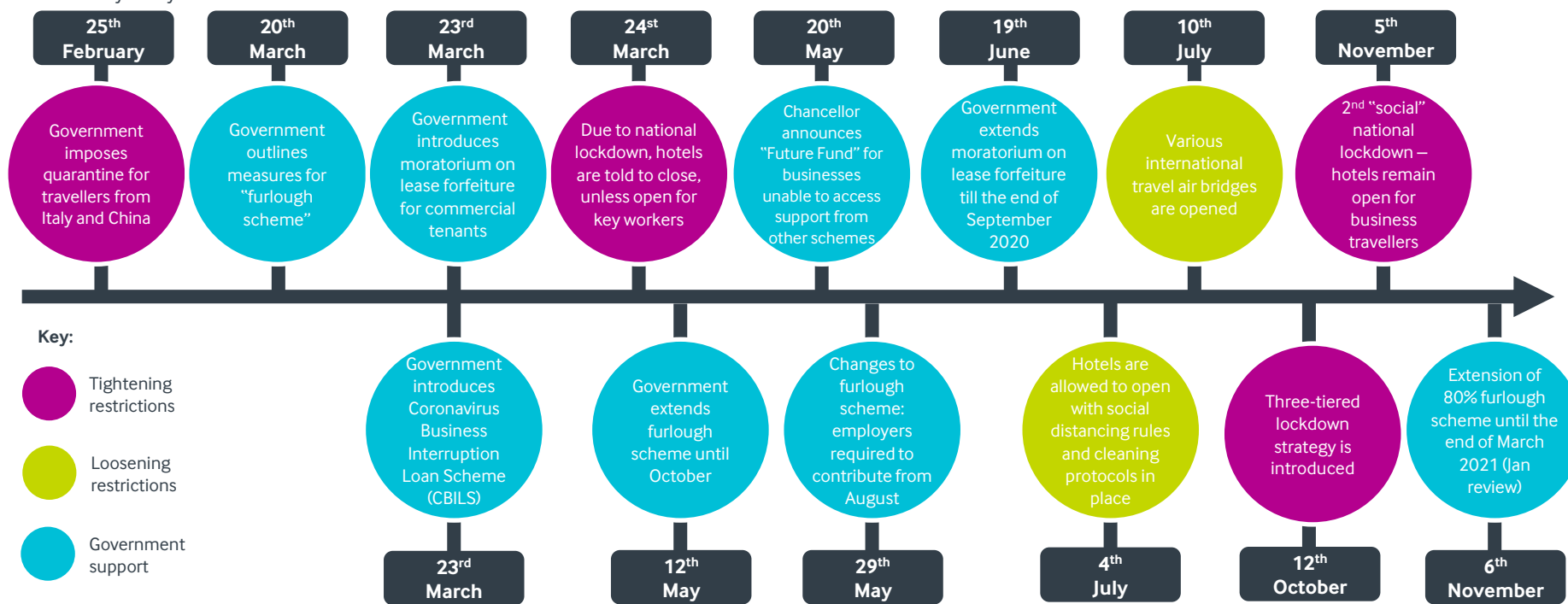
Timeline of Key Events Since February 2020

A year of turbulence for the industry

Although the severity of the situation was not fully apparent and the UK’s national lockdown not put in place until the end of March, from mid-February the hotel industry began to see the cancellation of major international conferences across Europe and restrictions being placed on corporate travel by employers. The UK did not impose border closure or control as soon as others, but many countries did so, severely reducing international travel.

Hotels were required to close from the end of March, the only exception being those that were housing key workers. Whilst many remained closed throughout, some were able to find opportunities to let entire properties to accommodate NHS workers, or to provide temporary shelter for the homeless. Others continued to function with the reduced demand base of key workers only (such as NHS, logistics, infrastructure, government) working at low occupancies, with reduced workforces and very limited Food & Beverage and ancillary services.

The industry saw brief respite in the summer months as trading picked up slightly, but now that demand has faded and further restrictions have come into place, the outlook is challenging for many until a vaccine becomes available and international travel and quarantine restrictions lift completely. The extension of the support measures in place is deemed insufficient by many.



Impact on Operations and Performance

Major disruption of levels previously unseen in the industry

At the lowest point it is estimated that only 50% of the UK's hotel rooms remained open. Although extremely challenging to operate during the national lockdown, remaining open to key workers allowed some hoteliers to be more prepared and ready to operate in a Covid environment with safety measures in place once the wider sector was able to open to the public on 4th July. Throughout July the number of hotels open gradually increased to reach over 90% of total room supply in August and September. Since the second national lockdown was introduced on 5th November we are seeing signs that the number of hotels open is falling again.

From early spring 2020, performance across the UK and continental Europe saw one of the most drastic declines recorded in the industry, with RevPAR (Revenue Per Available Room, a key performance metric for the industry) in the UK down by c.80% for four months in a row compared to the previous year, and even further in London. Occupancies in most areas have struggled at below 30% throughout the spring and beyond. This has eased slightly over the summer, in regional leisure destinations in particular, but overall performance is still considerably behind where it would normally be.

Whilst the Coronavirus Job Support Scheme, Business Rates holiday and deferral of VAT obligations helped compensate hoteliers for some of their fixed and payroll-related expenses, other operating costs have seen increases due to purchasing of PPE, additional cleaning, changes to F&B operations requiring table service and limiting the number of covers, and other measures which required a shift in operating and safety standards. As a result, many have needed to call upon the government-backed loans schemes to tide them over this difficult period, and in some cases necessitating difficult conversations with landlords and lenders.

RevPAR Performance Trend (YoY % Change)



Reopening Trend across the UK (Based on Trading Rooms as % of Total Supply)



Performance Variances across Markets

Leisure destinations have been the winners over the summer

Since the re-opening of hotels was permitted on 4th July, there has been a stark contrast in performance between major leisure destinations and “Coast and Country” properties compared to business-driven city centres. A number of coastal towns have seen very healthy occupancy levels over the summer months and continuing into the autumn and through half term, with some reporting a better summer season than in previous years. Destinations that are more reliant on international and business travel have continued to struggle with low occupancies and as the leisure season has tapered off and corporate travel remains subdued, we see increasing temporary closures in cities where demand is insufficient to cover running costs and allow hotels to function at break-even.

Actual Occupancy – May

Actual Occupancy – August

Actual Occupancy – October



Market Demand Composition Matrix

Hotel demand profile a key factor in understanding recovery

Recovery expectations vary widely from asset to asset and from one market to another. A key factor is the demand mix, both for the individual asset and for the wider market.

Those with a higher concentration of domestic and leisure visitation are expected to recover faster, with those more reliant on international travellers, conference and events and business demand likely to see a slower return of their core customer bases.

Hotels with greater focus on rooms revenues will be able to recover better than businesses that rely heavily on F&B and events revenues where restrictions mean some outlets are not able to trade.

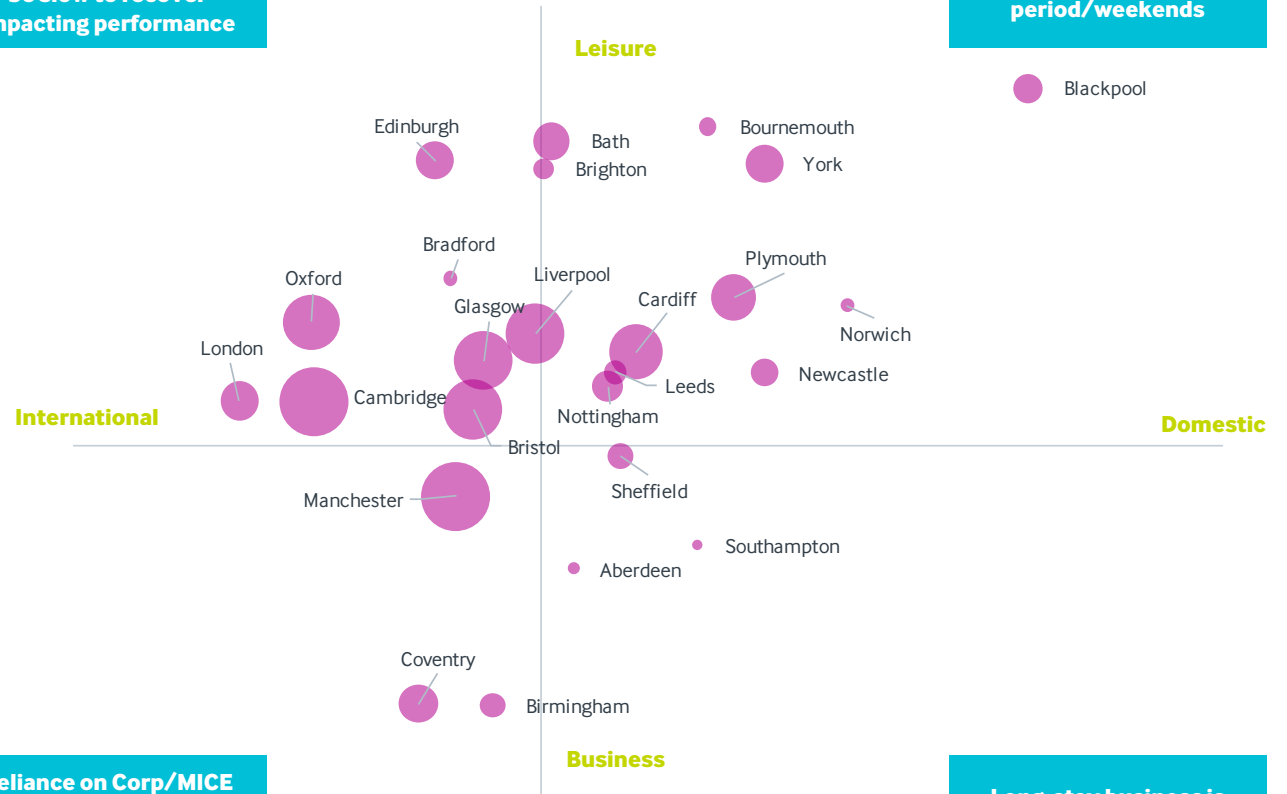
Serviced apartments, where guests are able to cater for themselves and have less interaction with other guests, are also expected to continue to outperform the rest of the market.

Those reliant on group travel, older demographics, coach tours and hostels with large shared rooms will take longer to return to normal than those which appeal more to the individual traveller and affluent demographics.

The perception of hygiene measures in place will also be an important part of being able to attract guests back once restrictions allow, and may favour brands and properties which are marketing this aspect.

International demand will be slow to recover impacting performance

Pick up during summer period/weekends



Reliance on Corp/MICE Likely shift in segmentation short term

Long-stay business is more resilient

Bubble size indicates the % of pipeline currently under construction out of total room supply

Note: Leisure includes trips taken for holiday and visiting friends and relatives

Transactional Environment

Shift in focus towards regional assets and domestic buyers

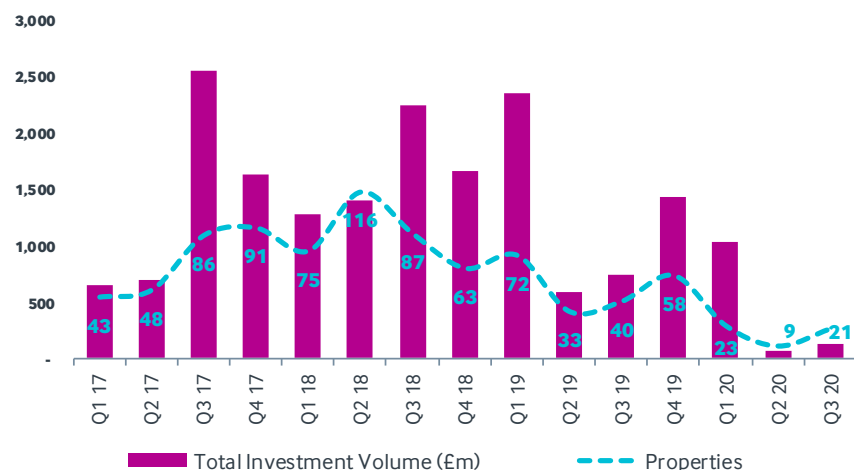
Since the start of the first lockdown, the transactional market has faced significant challenges, due to limitations on travel for international buyers, and access to properties for due diligence purposes which led to a hiatus of deals and limits on access to financing. The market became more active from June onwards, and whilst volumes were still limited, there was a significant improvement on Q2.

There is a notable shift towards regional transactions, where buyers tend to be more domestic and in many cases able to complete the transactions without bank financing. Financing for new deals from the high-street lenders remains more limited than pre-Covid as they are focused mainly on supporting existing customers, but we understand some are still open for new business with modifications and additional protections in place on the loan structures. Alternative lenders and a growing number of debt funds are another option which is expected to become more important to the sector.

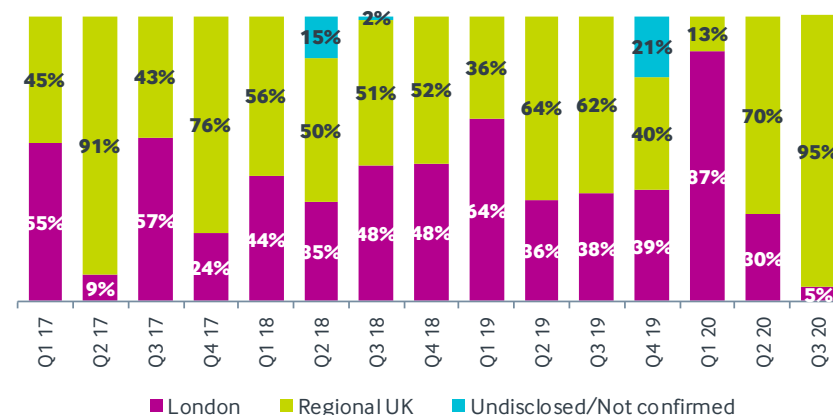
Buyer appetite for hotels remains strong despite the uncertain outlook for trading in the short to medium term, but so far limited new stock and opportunities of size have been coming to market. Much of the stock that transacted over recent months was already on the market pre-Covid. Many sellers remain reluctant to put their properties on the market either due to lack of awareness that there are still buyers in the market, or due to an anticipated discount on pricing expectations from buyers.

The ongoing government support, constructive approach of lenders, suspension of lease forfeiture and creditor’s winding up petitions and, in some leisure destinations, record levels of demand over the summer months has enabled hoteliers to survive thus far. Whilst these factors have impacted distressed sales coming through in volume, we have seen some consensual sales processes, led by the lenders, coming to market.

Quarterly UK Hotel Investment Trends

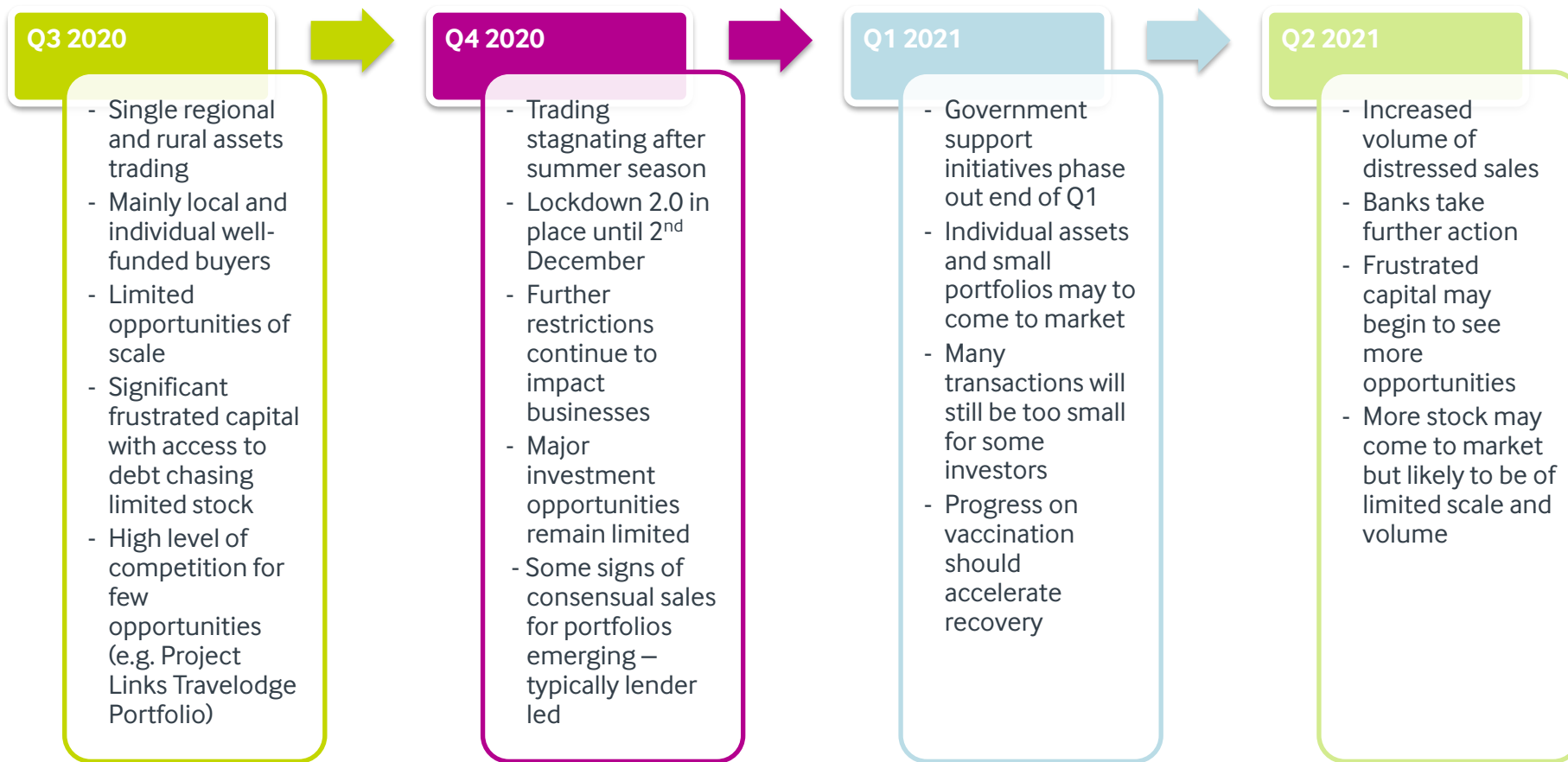


Quarterly Hotel Investment Volume Distribution



Transactional Market Outlook

Opportunities expected to be unlocked in 2021



Christie & Co Hotel Team

COVID-19 has led to significant disruption within the sector, and we share the concerns of owners and operators. Our team of professional advisors are on hand to support you through the challenges of the current market environment:



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