



Welcome

Welcome to the second issue of our **Hotel, Tourism and Leisure Sector Review for 2019**.

In this issue we review the recent announcement from Fáilte Ireland of a €15.5m fund for tourism to towns across Ireland.

We consider the rising costs for the hotel, tourism and leisure industry, particularly around rising insurance premiums, which have been in the news lately.

We also look at hotel trading performance in the capital and regionally, and update on the supply and transactional market.

For further information on any of the topics covered in this review, please contact any member of our dedicated hotel, tourism and leisure team.

Naoise Cosgrove
Managing Partner

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Hotel, Tourism & Leisure Sector Review Quarter 2, 2019

Balancing rising costs

The annual Crowe *Hotel Industry Survey* has reported growth in revenues and profits for many hotels over the last number of years. This growth can be attributed to an increase in tourist numbers, greater investment in hotels and an improving domestic economy. However, the increasing revenues are mirrored by increasing costs, with some departments under more pressure than others. The increasing cost of insurance and payroll are two such overheads that have been in the spotlight recently.

Insurance

A recent survey undertaken by the IHF found that 78% of hotels are reporting an increase in insurance premiums over the past 12 months. Of these, the average increase was 15%, which comes on the back of substantial increases in recent years. The IHF have warned that premiums have reached an unsustainable level, averaging €1,150 per guest bedroom annually. Three quarters of hotels are saying that excessive insurance costs are having a significant negative impact on their business.

The excessive level of awards and lack of consistency is making Ireland less attractive for insurers, with an increasing number no longer willing to provide cover to hospitality businesses. This in turn is reducing competition in the insurance market and driving up costs.

The trend towards self-insurance, where businesses forgo insurance to set aside a certain amount of funding to deal with potential risks, carries a high level of risk should the provision not cover potential claims.

The Alliance for Insurance Reform was set up two years ago and a key aim of the

reform committee is to lobby the Minister for Justice to establish a dedicated resource within the Garda Síochána specifically tasked to investigate fraudulent cases and push for a zero tolerance policy.

It is vitally important the industry continues to lobby for real reform as insurance becomes a very real threat to the industry's competitiveness.

Payroll

The hospitality sector is a labour-intensive industry. While technologies can help with some efficiencies and work practices, people will always be at the heart of the customer experience.

With the economy near full employment, the hotel industry is competing with other sectors for key departments. Human resource departments are finding it harder to source and retain staff. Hotels without a full-time HR function face challenges around the costs and time associated with recruitment, retention and training and development. The sector faces increased wage pressure from the low unemployment rate, competing sectors offering higher hourly rates and, in certain locations, the cost of housing.

During the recession, many hospitality businesses had to cut costs, and payroll was first in line. Investment in training and development was significantly reduced. Many hotels are now realising that investment in their staff is vital in order to maintain standards and meet growth forecasts.

As management increase their focus on driving sales, cost control can suffer. Monitoring and maintaining costs within this growing market is vital for any hospitality business. Failure

to understand the underlying cost components within any department can result in lower profit conversions.

Crowe can help you understand your business, your revenue components and their associated costs. We can forensically examine all aspects of the business and offer recommendations based on our experience to ultimately streamline operating expenses and improve cash flow.

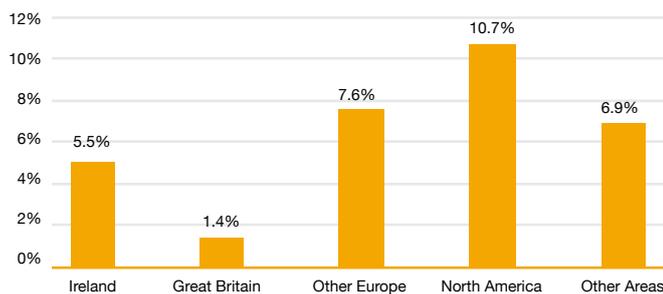
Tourism trends

Overseas

International demand continues to grow, with CSO data showing the number of overseas visits to Ireland in the first three months of the year increasing 5.5% to over 2.02m visitors, when compared with the same period in 2018. The greatest increase was from the US and Canada, up 10.7% over the quarter. The continued strength in international demand bodes well for Ireland, particularly as this period is part of the off-peak season.

Other Europe visitors are up 7.6% for the first quarter of the year. It is interesting to note that visitors from Great Britain increased 1.4% while Other Areas increased 6.9% in the first quarter compared to growth of 1.5% over the same period in 2018. This growth is most likely due to improved access to Ireland.

Increase of Trips



Source: CSO

Fáilte Ireland

Fáilte Ireland has announced a €15.5m fund to boost tourism to towns across Ireland. The aim of the fund is to boost the attractiveness and tourism appeal of regional towns and a total of 62 towns across the country will benefit from the fund.

Through the scheme, every local authority in the country will be able to bid for funding of between €250k and €500k to develop up to two towns in their area that have the potential to become a 'destination town' for tourists.

The new scheme will provide funding to councils to enhance public spaces in the town such as squares, streetscapes and markets in a way that will engage tourists and enhance their experience.

These 'destination towns' will need to demonstrate their capacity and appeal to attract more international visitors to stay overnight – a key driver of spend. To be successful in their funding submissions, councils will be expected to identify towns that have:

- At least one visitor attraction of scale that can drive tourism demand

- A range of things to see and do for two days. A town that hopes to attract overnight visitors needs to offer a variety of attractions, activities and entertainment options which can keep tourists engaged for more than 11 hours a day, including three hours in the evening
- A selection of accommodation. Towns will need accommodation stock of at least 300 beds to become a seasonal destination town (and 1,000 beds to operate as a year-round destination) or be a town that has the potential to grow its bedstock in the future
- A range of food offerings to meet visitor needs, including a range of options for light snacks, tea/coffee, lunch and dinner

It will be important for local businesses, particularly from the tourism and hospitality sectors, to get behind this initiative and lobby their elected council members to ensure the funds are utilised optimally.

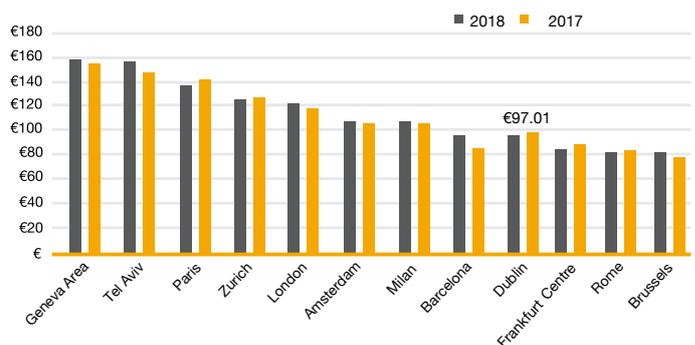
Hotel performance

Results released from the *STR European Hotel Review* show that the Dublin hotel market remained static in the first quarter of the year. RevPAR for the first three months of the year was €97.01 compared with €97.86 in 2018 – a decline of 0.9%. Dublin's RevPAR ranks eighth-highest in Europe ahead of major competing cities like Copenhagen, Rome, Barcelona, Lisbon and Brussels.

According to the report, Dublin's occupancy decreased by 0.8 percentage points to 76.8% for Q1 2019 but stands at the second-highest occupancy rate after London.

Average daily rate (ADR) remained relatively static at €126.25 versus €126.44 for the same period last year.

RevPAR January to April



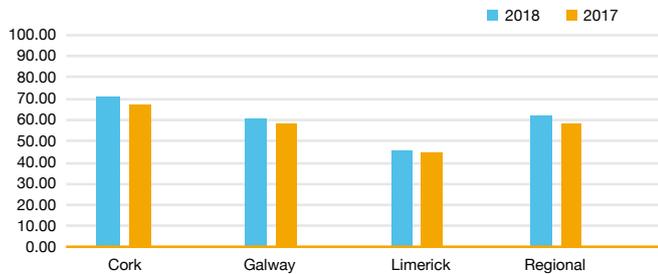
Source: STR

Regionally, hotels have experienced somewhat of a slow start in the first four months of the year when compared to the same period in 2018. RevPAR for regional hotels decreased 6% during the first four months. Occupancy was down 2.8% between January and April to 66% while ADR was €86.57.

- Cork hotels increased ADR 1.9% to €95.01 from January to April 2019, while occupancy decreased 6.1% to 69.5% with RevPAR decreasing 4.5% to €66.39. This may be attributed to the impact of new rooms to the city
- The Galway market has remained somewhat consistent with last year. RevPAR in Galway hotels decreased marginally by 0.4% to €59.42. Occupancy fell 1.2% to 63.1% and ADR increased by 0.7% to €92.86

- Limerick hotels RevPAR decreased 2.1% to €45.80, while occupancy decreased 5.4% and ADR increased to 3.8% to €74.73. It is positive to see a city that struggled to grow rate now being able to yield rate as the economy improves

RevPAR January to April



Source: Trending

Supply activity

- The 202-bedroom Aloft Hotel located in Dublin 8 opened in Q1 2019
- The Hendrick Hotel in Smithfield is set to open at the end of May 2019. This will bring a welcome 147 bedrooms to the Dublin 7 area
- Marlet started work on a €110m hotel/aparthotel development at Ha'penny Bridge. The 239-bedroom hotel will have an entrance on Abbey Street, while the 256-bed aparthotel will front onto Great Strand Street. The development is expected to be completed in the second half of 2021
- Construction has started on the 139-bedroom Dean Hotel in Galway city centre

Transaction activity

- The five-star Marker Hotel in Dublin's Docklands has recently been brought to market and is guiding €125m. The hotel, which has 187 bedrooms, is being sold with the benefit of planning permission for an additional 60 bedrooms and a new rooftop bar and brasserie
- Temple Bar Inn is actively on the market. The 101-bedroom hotel is currently guiding at €45m+
- Copper Face Jacks, together with the Jackson Court Hotel, is currently for sale, guiding at €40m
- A proposed 220-bedroom hotel on the site of the former tax office on Sullivan's Quay in Cork is for sale prior to its completion by current owners, BAM Property Ltd
- The Red Carnation Group has acquired Hatch Hall, a former Jesuit college located just off St. Stephens Green
- Harvey's Point in Donegal sold to Davy Real Estate for an undisclosed sum
- Powerscourt Hotel in Enniskerry has sold for just over €50m to MHL Collection
- Dublin City Hotel and Trinity Bar on Dame Street have sold for €12m
- Premier Inn have signed a pre-let deal with Glenveagh Properties for a 250-bedroom hotel at Castleforbes in Dublin's Docklands. Other locations secured by Premier Inn include a 97-bedroom hotel on South Great George's Street and a 180-bedroom hotel at Twilfit House on Jervis Street

About Us

Established in 1941, Crowe is a leading accountancy and business advisory firm in Ireland. Throughout our 75-year history, we have developed an unrivalled understanding of the Irish business environment and built a national reputation in auditing, tax and business consultancy.

We work with a variety of clients across commercial and public sectors. Our services include Audit & Assurance, Tax, Corporate Insolvency & Recovery, Corporate Finance, Consultancy, and Outsourcing.

We are also independent members of the eighth-largest accountancy network in the world, with colleagues in over 750 offices across 130 countries. Through this global reach we are able to offer clients a seamless service when trading internationally.

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