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WiH Market Talks: 2nd March 2021

Presenters:

Barbara Fraccascia, Forecast & Research Analyst, STR Global
Aggie Wojciechowska, Director Hotel Intelligence EMEA, HotStats
Clara Jacquier, Senior Vice President, Eastdil Secured

Moderator:

Vedrana Bilanovic Riley, CEO of Ciel Capital

'European Hotel Market Update' Discussion Highlights

Following last month's discussion about global hospitality trends, WiH invited Barbara Fraccascia from STR, Aggie Wojciechowska from HotStats, and Clara Jacquier from Eastdil to present their forecasts.

Despite a strong start, 2020 did not turn out to be the year that any of us had expected. European hotels finished the year at 33% occupancy (for those hotels that were open) and at 25% of the total room inventory – undoubtedly the worst results for many decades.

Europe nonetheless outperformed Central America, South America, Northern and Southern Africa. The Middle East, Asia and Australia achieved stronger results, though mostly below the 50% occupancy mark – with a few outliers such as Singapore (75% occupancy in December), Dubai (75%) and the Maldives (over 80%) which show encouraging signs that trade will return. It will however "get tougher before it gets better".

Long term recovery is anticipated from Q4 2021 – starting with leisure and events-led destinations.

Cities in regional UK and regional France are forecast to recover in 2022 / 2023 followed by gateway cities (Paris, Berlin, London) in 2024 / 2025, when business and international travel are expected to return in scale.

Midscale, economy and extended stay are expected to recover faster overall across all markets.

The panel then dug into profitability and performance. It has been generally very tough in Europe which was just about at "breakeven point" overall for 2020.

Again, extended stay properties performed better throughout the crisis (with a positive Gross Operating Profit Per Available Room), followed by economy and full service.

The luxury segment has seen the biggest drop in bottom line – though the strong summer helped mitigate losses.

Generally, positive performance is anticipated to return as soon as restrictions are lifted, which was already evidenced in-between lockdowns.

In Europe, Food and Beverage revenues have been hit due to closures and the social distancing rules (-9% year on year for Bar and +5% for Food) but room service revenues saw positive results (+24%).

“Following an initial sharp increase in operating costs, Covid related measures seem to have been offset by operational efficiencies” though certain fixed costs (undistributed expenses as well as sales and marketing) have been harder to reduce. Most gateway cities, save for Moscow, saw an overall negative profit per available room.

Unlike the Middle East and the APAC regions, European markets have benefitted from government’s help which has allowed them to offset costs further.

Turning our attention to transactional levels, 2020 started strong, with real focus and appetite from investors.

A number of legacy deals from 2019 completed in 2020 but the rest of the year has been quiet both from an equity and debt standpoint. The Leonardo Royal Alexanderplatz Berlin is one of the few transactions that started and closed in 2020.

Institutional capital is still there but private equity buyers, who had been largely absent prior to the COVID crisis, are back but are seeking much greater returns (c.25% IRRs).

Generally, there is a large amount of capital looking for hotel opportunities; mainly hotels with vacant possession, freeholds and upside potential (repositioning).

Investors are also looking favourably at extended stay as well as franchised hotels.

The most sought-after markets are currently regional, leisure and event-led cities where discounts to 2019 prices remain marginal (5-10%).

Bank financing is still available but on less favourable terms (lower LTVs and higher margins).

When our esteemed panel was asked about which cities they would expect to recover first, they all gave us rather interesting guesses: Nice / Bordeaux & St Tropez (France), Hamburg (Germany) & Edinburgh (UK).

COVID-19 has certainly changed the world as we know it. However, with the vaccination programme well underway, continued support from governments, latent demand from everyone to start travelling again to meet family, friends and peers face to face, we do expect hospitality to recover - hopefully faster than what is currently forecast!

Vedrana Bilanovic Riley, CEO, Ciel Capital



Hospitality Intelligence



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