BLACKBEE

pollinating great ideas

# BlackBee Hospitality Sector

## Insights / May 2021

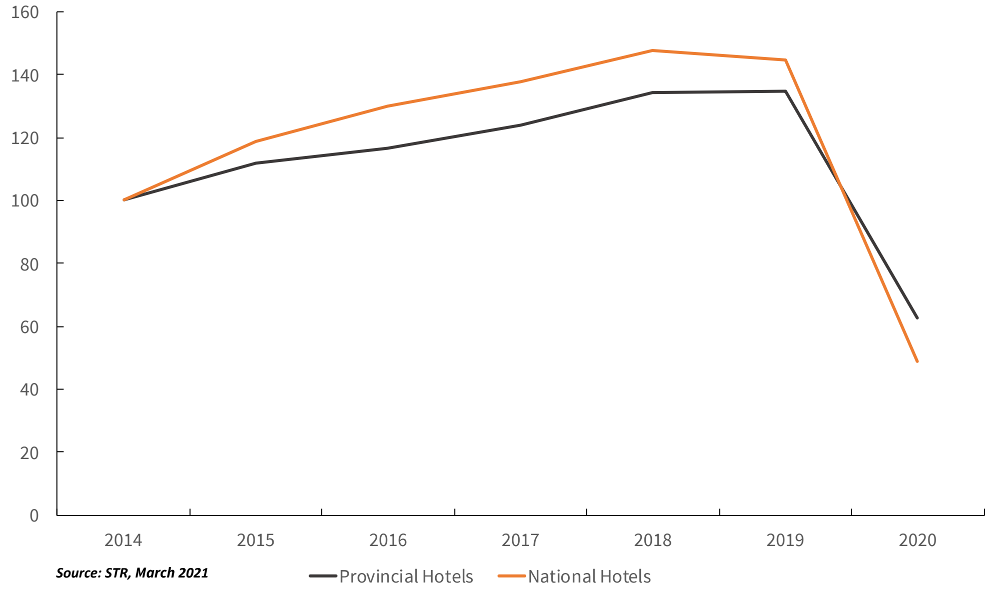
## The scale of COVID 19

National and provincial RevPARs collapsed by 66% and 54% respectively.

### 2020 RevPARs highlight the scale of the COVID 19 impact

The hotel sector has experienced its fair share of volatility over the past twenty years from the 9/11 terrorist attacks to Ireland's economic collapse to now the COVID 19 pandemic. However, it has also always demonstrated considerable resilience in recovering from such often severe downturns. The COVID 19 pandemic was the most recent blow to the sector last year. Chart 1 really illustrates the severity of the downturn with national and provincial RevPARs (Revenue per available room) collapsing by 66% and 54% respectively. Provincial hotels outperformed as the sector yo-yoed in and out of lockdown mainly thanks to a greater exposure to domestic economic conditions (rather than international leisure and business spending) as well as the trend towards 'staycations' in Q3 in particular. Given the slow roll back of government restrictions, international travel is likely to remain dormant this year meaning that the more domestically oriented provincial hotel sector will probably again outperform in 2021.

**Chart 1: Irish Hotel RevPAR (Rebased to 100)**




*Source: STR, March 2021*

This all points to a slow rollback of government restrictions and the probability that it may be June or July before we see a marked reduction in restrictions.

### In the short-term government restriction levels remain the 'only game in town'

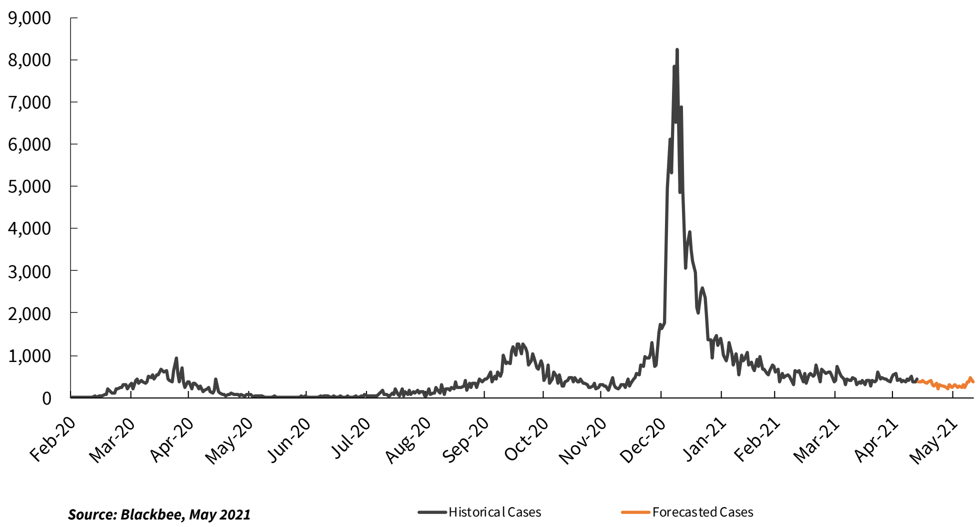
Last quarter we produced projections for COVID-19 case numbers on a 30-60 day time horizon using a Long Short Term Memory Model, a machine learning model which used historical time series data to predict short term COVID case numbers. At the time of writing the 30 day model is still indicating case numbers averaging around 300 over the next month (Chart 2), well down from the average numbers of cases during lockdowns but still above the average case numbers that applied during periods of level 3 and level 4 restrictions in 2020. This all points to a slow rollback of government restrictions and the probability that it may be June or July before we see a marked reduction in restrictions, just in time for the crucial summer holiday season.

## The impact of vaccinations

The other key factor that will drive the pace of easing of restrictions is how quickly the majority of the Irish population can be vaccinated against COVID 19. Chart 3 shows that at present approximately 10% of the Irish population has been fully vaccinated (i.e. received a second dose) while close to double that percentage has received a first dose. The rollout in Europe has been much slower versus the US but a significant acceleration in vaccine supply is expected this quarter which should boost the efforts to open up the sector from this summer onwards.

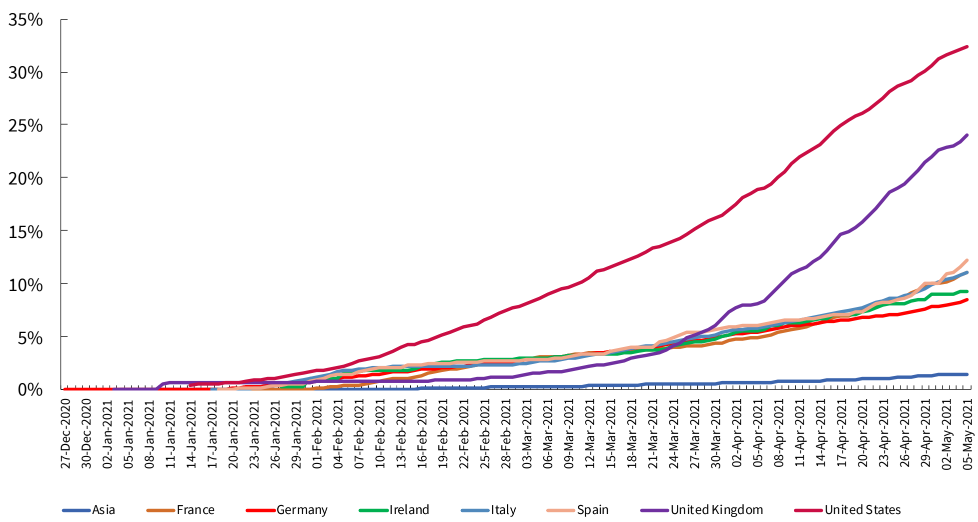
> A significant acceleration in vaccine supply is expected this quarter which should boost the efforts to open up the sector from summer on.

**Chart 2: Daily COVID Case Forecast from 30 Day Long Short Term Memory Model**




*Source: Blackbee, May 2021*

**Chart 3: Percentage of Population Fully Vaccinated**




*Source: ourworldindata.org, May 2021*

## Recovery prospects

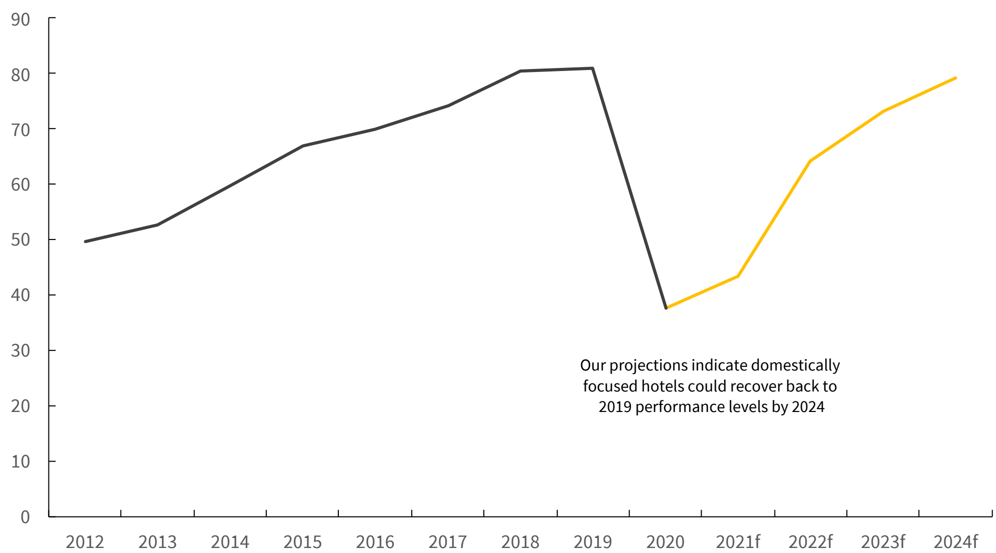
Provincial hotels are capable of recovering back to 2019 performance levels by the end of 2024.

### Realistic prospects for full recovery by 2024

Forecasting the recovery path back to pre-COVID trading levels is complicated by the very nature of the downturn. Since 2020's collapse in trading was caused by a 'shutdown' it stands to reason that a lot of the rebound or recovery will occur when the sector can take advantage of being fully 'reopened'. Medium term improvements in the economy (specifically employment and wage growth as well as credit/debit card spending on accommodation and socialising) will also play a vital part in contributing to the sector's recovery, as will the latent consumer spending potential for hospitality that has accumulated as Irish savings climbed over the past year.

Chart 4 shows our projections that provincial hotels (which are more dependent on the domestic economy) are capable of recovering back to 2019 performance levels by the end of 2024. At this early juncture our view is that the recovery may take slightly longer for those hotel groups more heavily dependent on international leisure and business travel but that too could change. Current projections for the recovery in international travel tend to vary between 2023 (bull case) and 2025 (bear case).

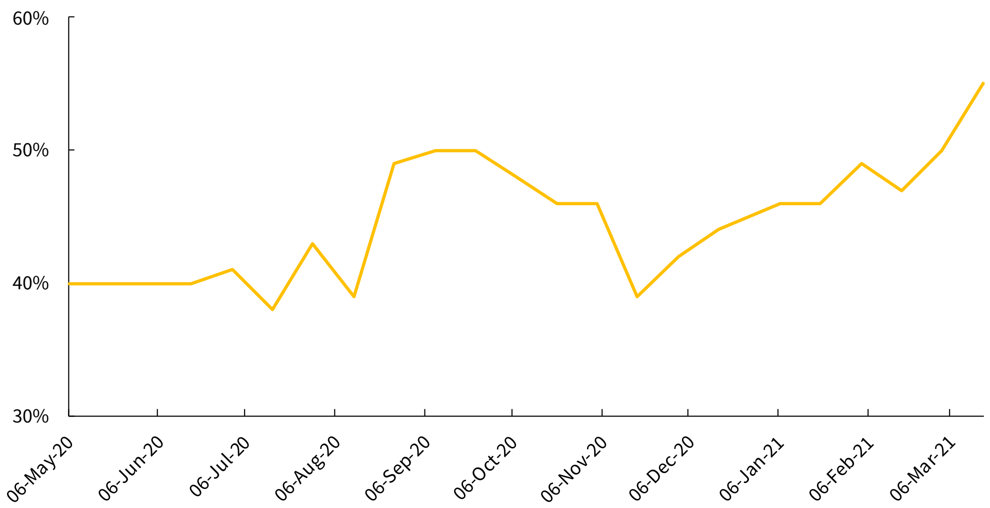
**Chart 4: Irish Provincial Hotel RevPaR (€)**




***Source: STR data up to 2020, 2021-24 projections source Blackbee***

The vast majority of inbound international travellers into Ireland come from the UK and North America so data on this will be a major swing factor for the medium-term recovery. For the moment however, it is heartening to see that US sentiment surveys regarding international travel appear to be improving. Chart 5 illustrates a gradual advance in international travel sentiment among US travellers from the Longwoods International US travel sentiment survey.

**Chart 5: Responses* to Statement**
**"I feel safe travelling outside my community"**




***Source: Longwoods International Travel Survey, April 2021***
****Agree or Strongly Agree responses***

## Anecdotal evidence of 10-20% fall in hotel values because of pandemic

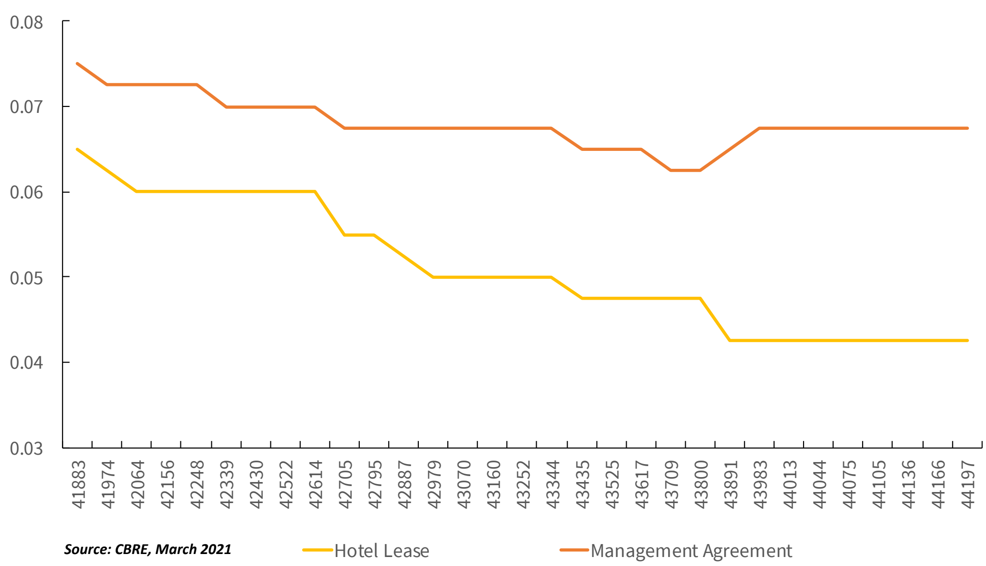
Drop in hotel valuation rates

Since the onset of the pandemic there hasn't been a significant amount of transactional activity from which to gauge how much COVID 19 has impacted hotel valuations. The value of Irish hotel transactions fell by 75% in 2020 compared to a global fall of 50-60% (source: Savills and Jones Lang Lasalle). Generally the guidance from Irish estate agents points to potential falls of 10-20% in hotel values as a result of the pandemic. But this will vary from asset to asset.

As an example, chart 5 shows the prime yields for Dublin hotels since 2014 and how they tightened as the sector strengthened in recent years. At present most hotel assets are being sold off market but as 'on market' sales occur through the rest of the year we should get a clearer sense of where prime hotel yields settle following the sector's dislocation. In our view we could see prime Dublin yields gap back up to around 5% over the next few quarters.

The value of Irish hotel transactions fell by 75% in 2020 compared to a global fall of 50-60%

**Chart 6: Prime Dublin Hotel Yields**




***Source: CBRE, March 2021***

## Signs of life

5 hotel transactions closed in the first 3 months of 2021.

### Transaction Activity - Signs of life returning

There have been a limited number of hotel transactions since the onset of the pandemic but one of the most significant has been Dalata's sale and leaseback of its Charlemont Hotel in Dublin 2 for c.€65 million in April 2020. Dalata will pay just over €3m a year in rent on a 35 year lease to German fund Deka indicating a yield of 4.62% today. Some more regional hotel transactions that have closed in recent months include the sale of The Blarney Hotel & Golf Resort to the HSE for €3m and the sale of Liss Ard Estate in Cork for €3.5m to US investors. According to CBRE, 5 hotel transactions closed in the first 3 months of 2021 while negotiations are underway on several other hotel assets.. The five sales compared to just 10 sales for the whole of 2020, offering further hope that confidence in the hospitality sector is returning. Interestingly, the HSE intend to convert The Blarney Hotel into a public residential care facility for older people. The conversion potential of hotels to nursing homes is something that we could see more of in the coming months as the usual large size of hotel bedrooms makes them an ideal fit for conversion to HIQA standards.

Several licensed premises traded hands in Dublin in 2020, despite the uncertainty surrounding the hospitality sector. However, the largest transaction, the c.€15m sale of The Old Storehouse in Temple Bar closed pre Covid-19. Since then, a number of large sales have transacted, however signifying where the licensed premises market was in 2020, many were purchased for alternative uses. The Magic Carpet pub in Cornelscourt, Dublin 18 was sold for €9m to Dunnes Store as it came with the benefit of a large development site next door. The Ruin bar in Dublin 2 was purchased by Marlet for c.€8m off market as a development site, given its proximity to Marlet's existing development of the former Apollo House. A quick scan of Daft.ie and Agent's websites found that there are around 20 hospitality premises currently for sale in Ireland with a price tag greater than €1m. Within Cork, the three premises for sale all offer guest accommodation and are situated along The Wild Atlantic Way, a popular destination for both domestic and international tourists and include entire holiday complexes such as the Berehaven Lodge in Castletownbere for €3.5m. Further inland, as reported in The Irish Times recently, The Celbridge Manor Hotel is for sale at €6.5m (€100k per room).

There has been some mixed reviews from locals and council members to planning applications for hotels in Dublin with Dublin's Lord Mayor Hazel Chu stating that Dublin City Council needs to restrict the development of further hotels to prevent "over-concentration" in the city. The sitting Lord Mayor has said Dublin City Council should introduce clear thresholds that measure hotel and aparthotel "over-concentration" in given geographical areas. Since 2015, Dublin City Council has approved plans for more than 10,000 hotel or aparthotel rooms to be built in Dublin. Despite these comments from the Lord Mayor, a number of hotels have been granted permission in recent months including a 60-bedroom 5 star hotel at Hatch Hall, Dublin 2 and a 76 bedroom hotel in Rathmines, Dublin 6. Encouragingly, several developers have submitted planning applications for hotels in both Cork and Dublin in recent months, including for a 194-bedroom hotel on Camden Place in Cork City.

Whilst transaction activity in the hospitality sector has increased from the lows experienced in 2020, until the vaccination programme has been rolled out extensively we will not see activity return to normal with the majority of licensed premises continuing to be purchased for alternative uses.

## Overall - Hotel sector recovery should begin in H2 and gather pace through 2022

## Pace of Sector Recovery

The hotel sector in Ireland came into the COVID 19 crisis in reasonably good shape having rehabilitated itself following the collapse in the Irish economy during the Global Financial crisis. The COVID 19 crisis is a fresh blow but one which we believe the sector can recover from over the medium term. The dominant theme for the sector in the next few months will be the rollback of government restrictions which we believe will happen in time for the key summer season. The likely pickup in vaccination pace over the next few months should then provide a platform for 2022 to represent the year where the hotel recovery really gathers pace. We see this culminating in a full recovery in the sector by 2024 or early 2025.

We see a full recovery in the sector by 2024 or early 2025


**Disclaimer:**

Certain statements contained within this document may be statements of future expectations and other forward-looking statements, which are based on management's current views and assumptions, and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. In addition to statements which are forward-looking by reason of context, words such as "may", "will", "should", "view", "see","expects", "plans", "contemplates", "intends", "anticipates", "believes", "estimates", "predicts", "potential", or "continue" and similar expressions typically identify forward-looking statements.

By their nature forward-looking statements involve known and unknown risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. As such, no forward-looking statement can be guaranteed. Undue reliance should not be placed on these forward-looking statements.

Subject to applicable law requirements, we disclaim any intention or obligation to update or revise any forward-looking statements set forth herein, whether as a result of new information, future events, or otherwise.

This document is for information purposes only and shall not be treated as giving any investment advice and/or recommendation whatsoever.

These materials are directed only at relevant persons and must not be acted upon or relied upon by persons who are not relevant persons. Any investment or investment activity to which these materials relate is available only to relevant persons and will be engaged in only with relevant persons.

Figures in this document may have been rounded, this could result in percentage changes differing slightly from those provided in such reports. We have exercised utmost diligence in the preparation of this document. However, rounding, transmission, printing and typographical errors cannot be ruled out. We are not responsible or liable for any omissions, errors or subsequent changes which have not been reflected herein and we accept no liability whatsoever for any loss or damage howsoever arising from any use of this document or its content or third party data or otherwise arising in connection therewith.

BlackBee Alternatives
City Quarter, Lapps Quay,
Cork, Ireland

T: +353 (0)21 206 1710
E: invest@blackbee.ie



Registered Office: City Quarter, Lapps Quay, Cork