Hotel, Tourism and Leisure Sector Review Quarter 3, 2016

Welcome

Welcome to the Quarter 3 2016 issue of our Hotel, Tourism and Leisure Sector Review.

Following the outcome of the recent referendum, we discuss the impact of the Brexit vote on Irish tourism.

We also look at year-on-year RevPAR performance, general tourism trends and an 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 team.

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Impact of Brexit on Irish tourism

Ireland has been experiencing a strong recovery in tourism numbers in recent years, with 2015 being a bumper year. However the unexpected vote by the UK to leave the European Union now casts a shadow of uncertainty as to potential further growth in demand levels.

UK is Ireland's largest trading partner and largest single source market for inbound visitors generating over 3.5m visitors in 2015 or 41% of total visitors to Ireland.

Following the referendum results sterling has dropped to its lowest value since 1985, UK consumer confidence has dipped and there is concern that there will be further deterioration in the next 12 months. This leaves the UK outbound tourism market vulnerable to a deceleration in numbers.

The impact of Brexit on Irish tourism is expected to be two-fold in terms of the effect on international and domestic tourism demand.

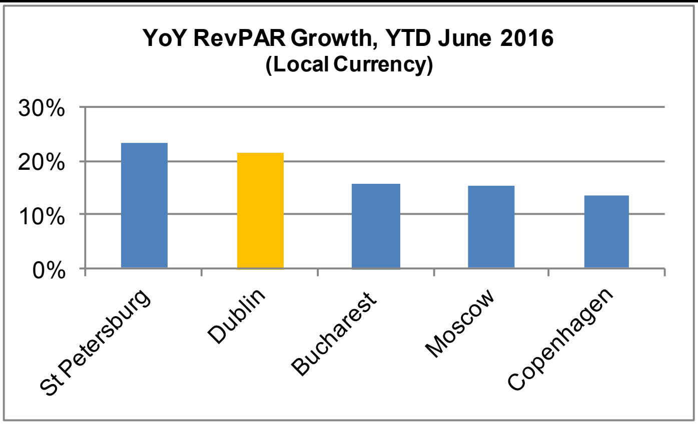
Impact on international visitor numbers to Ireland: The impact of Brexit on outbound tourism from the UK will predominately come down to currency conditions and the potential for a recession in the UK. If sterling continues to weaken then it will become more expensive for UK visitors to come to Ireland than to have a city-break within the UK. Ryanair predict the Brexit vote is likely to depress demand for international travel, while International Airlines Group (AIG) has adjusted their 2016 earnings outlook downwards following the result.

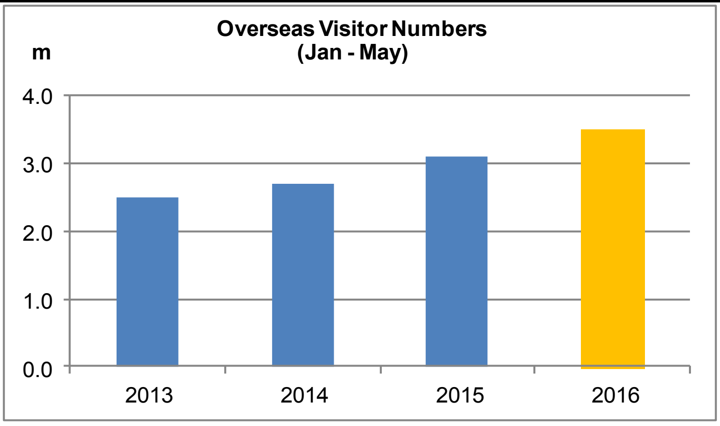
While the UK is Ireland's largest volume market a decrease in demand from this source could be offset by an increase in visitor numbers from other sources such as the US, Europe and Asia which have a higher spend per visitor. A modest increase from these markets could support a continued net growth in Ireland's tourism revenue, albeit at a lower level than experienced to date.

Impact on domestic demand: UK's decision to exit the EU creates significant uncertainty for Irish businesses in the short-term and may lead to a slow-down in economic activity. GDP growth is likely to taper to a more modest 3% - 4% over the next 2—3 years. The impact of Brexit is likely to differ geographically with border counties experiencing the greatest effect to business and consumer demand levels. Meanwhile Dublin and other Irish cities may benefit from potential relocation of UK based international businesses seeking an EU base.

For further analysis on the impact of Brexit visit our article *Brexit : Europe speaks* on our website at www.crowehorwath.ie.

Inside This Issue:





Tourism Trends

CSO figures show visitor numbers for the initial five months of 2016 have increased by 14% to 3.4m with growth from each of the major source markets.

Dublin continues to rank in the top 5 best performing European markets in terms of year-on-year RevPAR growth. The uplift in demand has allowed the Dublin market to achieve strong ADR increases supporting double digit RevPAR growth.

It's a similar story for hotels nationwide whereby improvements in RevPAR are primarily driven by ADR growth.

Hotel RevPAR Trends H1 2016	
Dublin	↑
Cork	↑
Galway	↑
Limerick	↑
Regional	↑

90% of Irish hoteliers have reported an increase in business levels for H1 2016, according to a recent hotelier survey. While 89% of respondents plan to invest in refurbishment and capital investment programmes over the next 12 months.

Supply Activity

While demand levels continue to improve, to date the introduction of new hotel supply has not been keeping pace. Additional hotel supply for 2016 includes the new 198-bedroom Holiday Inn Express on O'Connell Street and the 104-bed extension at the Red Cow Moran Hotel.

Recent announcements of planned extensions or new builds include:

- The Hilton Hotel Charlemont has been granted planning for a new 7-storey 97 -bedroom extension which, on completion, will bring their total room count up to 305 bedrooms
- Tetrarch Capital have applied for planning for 184-bedroom aparthotel development just off Pearse Street in Dublin 2
- An Bord Pleanala has approved plans for 41-bedroom boutique hotel in Ranelagh
- The owners of the former Ormond Hotel Dublin have submitted a new planning application to demolish the existing building and develop a 121-bedroom hotel on the site

Transaction Activity

There has been 29 hotels sold in H1 2016 with a total value of over €136m. An overview of some of the larger transactions include:

- Radisson Blu Athlone has been purchased by iNua Hospitality for a reported €9.5m. iNua Hospitality also own the Radisson Hotel Cork and Radisson Hotel Limerick
- The 4-star Tulfarris Hotel and Golf Resort in Wicklow has been sold to the Prem Group for c€8m
- The Cashel Palace Hotel has been purchased by John Magnier for €2.5m
- The 5-star Lyrath Estate Hotel is sale agreed in excess of the guide price of €20m

Other pending hotel sales include Blackstone's sale of the DoubleTree by Hilton Hotel Dublin, the Farnham Estate Hotel and Golf Resort in Cavan and the iconic Gresham Hotel on O'Connell Street. Also due to complete shortly is the sale of Paul Fitzpatrick's three Dublin hotels—the Morgan, the Spencer and the Beacon—for c€150m.

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