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Lasting value.**



Welcome

Welcome to the Quarter 4 2016 issue of our Hotel, Tourism and Leisure Sector Review. This year Crowe Horwath celebrates 75 years of advising and supporting clients within the hospitality sector.

As the pace of transaction activity continues, we consider the role of hotel leases in the evolving ownership profile of the Irish hotel market.

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.

Naoise Cosgrove
Managing Partner



Hotel Lease Structures

With two of the largest hotel groups in the country, Dalata and Tifco, recently acquiring leasehold hotel interests we examine the trend for leased hotel assets.

Dalata is no stranger to hotel leases - it was established in August 2007 to acquire the leasehold interest in 11 hotels from Choice Hotels Ireland. At the time of its flotation in March 2014, it did not own any freehold hotels - instead leasing or operating under management contract structures. It has since embarked on an acquisition trail, acquiring the freehold of 24 hotels and 3 development sites.

In recent weeks, Dalata has announced its conditional agreement to acquire the leasehold interest in the former Burlington Hotel, which operates as the DoubleTree by Hilton. Dalata is to lease the hotel under a 25-year lease from new owners Deka Immobilien. As part of the transaction, Dalata will rebrand the hotel as the Clayton Burlington Road. Earlier in the year Dalata acquired the leases for the Gibson Hotel (Dublin) and the Croydon Park Hotel (London).

Separately, Tifco are reportedly in the process of acquiring the leasehold interest on the 12 property strong Travelodge hotel chain in Ireland, which comprises hotels in Belfast, Cork, Derry, Dublin, Galway, Limerick and Waterford.

The traditional hotel ownership model in Ireland is that of owner-operator, where the owner owns both the property and the trade. In the early 2000s, management contracts came into vogue as international chains entered the market. During the economic downturn management contracts fell out of favour with investors due to income volatility, the lack of direct operational control and high costs.

As the market enters a development cycle lease structures may offer mutual benefits to investors and operators. From an investor's perspective a lease to a financially solid operator should provide a secure and predictable income stream. The investor can share in the market growth via turnover or profit top-up rental clauses.

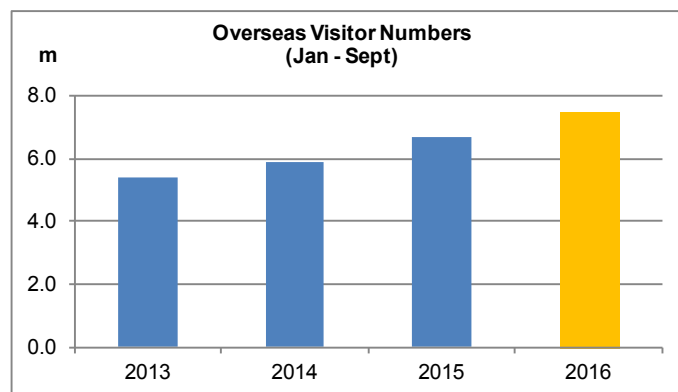
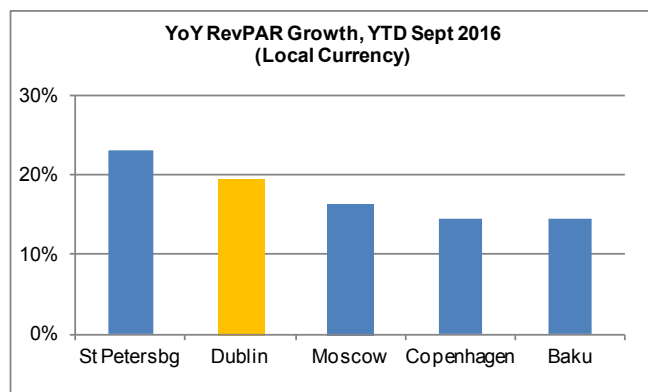
From an operator's perspective, lease structures are not as capital intensive as direct ownership. With a scarcity of equity and debt funding available for development, leases may be an attractive means for hoteliers to accelerate expansion.

As hotels are a specialised asset class, it is important that expert advice is sought to ensure that the operating structure is designed to meet the requirements of the stakeholders. Crowe Horwath have extensive experience acting for owners, operators and funders of hotel assets and our team would be delighted to work with you to share their experiences and identify a structure to meet your needs.

Tourism Trends

CSO figures show visitor numbers to Ireland have increased by 12% to 7.4m for the first nine months of 2016. There has been growth from each of the major source markets - with visitors from North America up 15.4%, GB up 13.2% and Mainland Europe up 10.6%.

Dublin continues to rank in the top 5 best performing European markets, with RevPAR growth of 19.4% YTD September. Dublin's occupancy at 84% tops the European league table. Its rate at c. €130 has grown by 17.8% YTD September and is now just outside the European top 10. Beyond Dublin, regionally hotels in other urban cities are achieving double-digit RevPAR growth based on strong improvements in ADR.



Crowe Horwath recently completed a sentiment survey on the impact of Brexit on the Irish hotel sector. The findings showed that in the immediate 3 months following the referendum, there had been little impact on the sector. However, with weaker Sterling likely to persist, Brexit poses a risk to the sector. Given this uncertainty, the Government's decision to retain the 9% tourism VAT rate is welcome.

Supply Activity

A number of new hotel projects have been announced recently to include:

- Tetrarch Capital has received planning permission for a 158-bed hotel on Sackville Place, off O'Connell Street
- Dublin Loft Company has applied for planning permission for a 178-bed hotel in Smithfield
- The Herbert Park Hotel has applied for planning for 32-bed extension to the existing hotel in Ballsbridge
- Meanwhile the planning application for the restoration of the Clerys building includes a proposal for a 176-bed hotel
- Monteco Holdings' redevelopment of the Ormond Hotel has been approved for a reduced 5-storey property with 121 bedrooms

Transaction Activity

The investment market continues to perform well. Some of the larger transactions announced during the last quarter include:

- Spanish hotel group, Riu Hotels & Resorts, acquired the Gresham Hotel for a reported €92m
- John Malone partnership bought the three Fitzpatrick Lifestyle Hotels - the Beacon, the Morgan and the Spencer Hotel - for a reported €150m
- FBD Hotels & Resorts has agreed to sell the Tower Hotel in Waterford to the Neville Hotel Group
- Farnham Estate, which was brought to the market by Receiver, Aiden Murphy, is sold to a fund run by Austrian investor Thomas Roeggla

A number of hotel properties have come to the market in recent months including the following:

- The Zanzibar Site on Ormond Quay, with planning for a 89 bedroom hotel, has been put brought to the market for c. €5m
- Lynams Hotel on O'Connell Street has also been launched on the market by Receiver, Aiden Murphy, with a guide price of €4m

ABOUT US

Established in 1941, Crowe Horwath 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 are independent members of the ninth largest accountancy network in the world, with colleagues in 750 offices across 130 countries. Through this global reach we are able to offer clients a seamless service when trading internationally.

Our specialist hotel, tourism and leisure division is the global leader in hospitality consulting. Our Dublin-based team provide impartial advice on a wide range of hospitality projects at every stage of the lifecycle. We help clients make smarter decisions today that create lasting value for tomorrow.

Smart decisions. Lasting value.

CONTACT

Crowe Horwath Bastow Charleton
Marine House, Clanwilliam Place, Dublin 2.
Tel: +353 1 448 2200



Naoise Cosgrove
Managing Partner
naoise.cosgrove@crowehorwath.ie



Aiden Murphy
Partner
aiden.murphy@crowehorwath.ie



Mairea Doyle-Balfe
Director
mairea.doylebalfe@crowehorwath.ie