



Welcome

Welcome to the Quarter 3 2018 issue of our Hotel, Tourism and Leisure Sector Review.

Many of you will have noted that we recently adopted the simplified name Crowe. As part of a strengthening of our global network, our member firms are uniting under this common brand. The network remains the global leader in hotel, tourism and leisure consulting and we regularly work on projects with our international colleagues on projects.

In this issue we examine the continued growth in the hotel sector, balanced against the concerns of an increase in the VAT rate and the impact this uncertainty has on capital development projects. We discuss the importance of an independent feasibility study in informing design briefs and underwriting the development case.

We also look at hotel trading performance in the capital and regionally and provide 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, Tourism & Leisure Sector Review Quarter 3, 2018

Launch of 2018 Ireland Hotel Industry Survey

The Crowe 2018 Ireland Hotel Industry Survey shows a seventh consecutive year of growth in turnover with record profit levels, room occupancy levels, average room rates and occupancy level recorded across all regions.

Our survey, now in its 23rd year, remains the barometer for hotels to benchmark their financial results against industry standards. A benchmarking exercise can identify opportunities for revenue growth or cost efficiencies, many of which can be implemented through small adjustments to the business. Through independent business reviews, Crowe can help hotel owners to objectively assess their business, identify key areas for improvement and advise on achievable goals and how to make necessary changes. Contact a member of our [HTL team](#) to find out more about how we can assist.

To order your copy of the 2018 Hotel Industry Survey, please contact [Sinead O'Rourke](#).



Pictured at the launch of the 2018 Hotel Industry Survey, Mairea Doyle-Balfe, Director and Aiden Murphy, Partner.

Budget 2019 – VAT rate

As Budget 2019 approaches, there has been extensive discussion and commentary surrounding the 9% VAT rate in the hospitality sector. Industry bodies such as the IHF and ITIC have been lobbying for the retention of the 9% VAT rate, citing the importance of remaining competitive to deliver continued growth and investment in a market where business costs are rising. The 9% VAT rate has been very successful in boosting business within the sector, especially for smaller regional hotels. There is a concern that a potential increase in VAT could have a negative impact on the investment needed in the sector.

There has been speculation that the 9% rate may revert to 13.5% on rooms only, or that a two-tier approach could be adopted with an increased VAT rate for larger hotels but keeping the reduced rate for other parts of the sector. This approach would continue to support regional tourism, especially in the border counties where there is already pressure from a drop in business due to Brexit. We hope Budget 2019 brings clarity to the VAT debate so that hoteliers can make informed decisions for the future. If you have any questions or concerns relating to VAT, please contact us.

Feasibility studies key to understanding market position and assisting with funding

It is well documented that there is a shortage of hotel rooms in Dublin, as evidenced by the consistently high occupancies in the city. There is a growing pipeline of new projects (extensions and new hotels) entering the Dublin market. After many years with no

development activity, a number of hotel projects have recently gone on-site, with Fitzpatrick and Associates estimating that there are around 3,000 rooms currently under construction in the Dublin market, with considerably more in the pipeline.

As occupancies across most regions are over 70%¹, we expect to see new developments commencing outside of Dublin, especially in major urban areas, such as Cork and Galway.

With any hotel project it is fundamental to the future viability that the initial concept and product are thoroughly researched. The design should take into account factors such as existing and anticipated supply, demand levels, product trends, the anticipated financial performance from the property and capital costs. At Crowe we work with developers and funders in critically assessing the viability of hotel developments and where relevant recommending alternative concepts to maximise the return on investment.

There are more than 60 hotel projects with planning permission in Dublin. Anyone considering funding or developing a new hotel should consider how the viability will be impacted by changes in supply, branding and the competitive product offering in the market. This involves detailed market research to understand these factors and the drivers of performance of the hotel. A good feasibility study will contain detailed financial projections, based on sound assumptions, which can be used as a basis for assessing an investment or funding decision.

If you are considering a development project, contact us to find out how we can help.

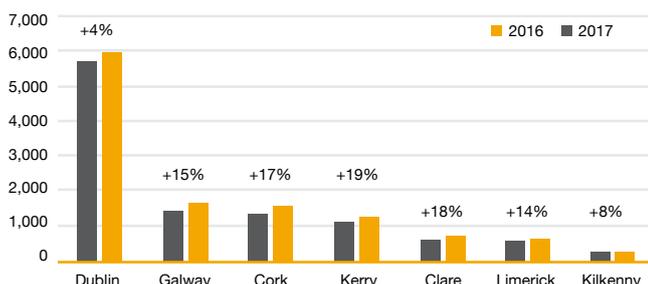
Tourism trends

Overseas

CSO data shows that the number of overseas visits to Ireland in the seven months to the end of July 2018 was 6.03m, an increase of 8% when compared with the same period in 2017. Visitor numbers from North America continue to show growth with an increase of 14%, followed by Other Europe up 11%. Visitors from Great Britain increased 2.5%.

Fáilte Ireland's recent tourism figures show that Ireland welcomed 9m overseas tourists in 2017 who spent €4.9bn during their visit. The initial figures identify Dublin, Galway, Cork, Kerry, Clare, Limerick and Kilkenny as the dominant destinations for overseas visitors. For the remaining 19 counties, domestic visitors represent the most important market segment. The table below shows the distribution of overseas visitors across key markets. Of interest, while tourist numbers increased in Galway and Cork by 229k and 163k respectively between 2016 and 2017, hotel occupancy remained relatively static.

Distribution of Overseas Visitors 2017



Source: Fáilte Ireland

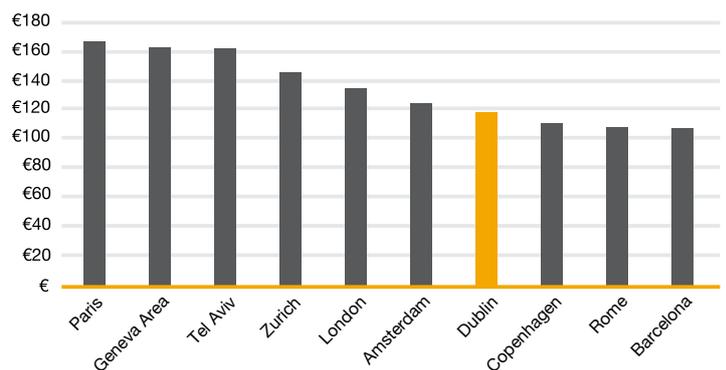
¹ Crowe 2018 Hotel Industry Survey

Tourists use a variety of accommodation such as guesthouses, hostels, caravans and camping. While hotels have the largest share of the domestic and international visitor markets in terms of bednights (40.5% and 28% in 2017), anecdotal evidence shows that visitors are using alternative accommodation such as serviced apartments and other "shared space" providers such as Airbnb. With demand so strong for alternative-use accommodation, it is important that a quality service and product is maintained to ensure continued guest satisfaction for Ireland's reputation as an international destination.

Hotel performance

Results released from the STR European Hotel Review show that RevPAR in Dublin hotels continued to grow in the seven months to the end of July 2018. RevPAR YTD July 2018 was €119.62 compared with €110.76 YTD July 2017. Dublin ranks seventh-highest in Europe, ahead of major cities like Madrid, Berlin and Brussels. According to the review, the average daily rate (ADR) in Dublin reached €143.61, an increase of €9 (6.7%) on the same period in 2017. Occupancy increased by 1.2 percentage points to 83.3% YTD July 2018, the highest occupancy rate across European cities. Occupancy for Q2 2018 was 89.6%.

RevPAR - July YTD 2018



Source: STR

According to Trending, regional hotels have performed well in the seven months to July 2018. All Ireland, which includes Cork, Limerick, Galway, Dublin, Waterford and Kilkenny, has seen growth in occupancy of 1.4 percentage points to 76.4% and growth in ADR of 14% to €93.82.

- Cork and Galway have seen double-digit RevPAR growth of 14% and 13% respectively in the seven months to July 2018. Both Cork and Galway are on par, with RevPAR of €83 for the period.
- Cork RevPAR was driven by occupancy of 80.2% and ADR of €102.91 (+11% YTD July 2018).
- Galway RevPAR was driven by occupancy of 75.7% and ADR of €106.78 (+13% YTD July 2018).
- Limerick occupancy has remained static at 69.8% while ADR increased 7% to €78.59 for the seven months to July 2018. Limerick nearing 70% occupancy is worth noting for a city that was for a long time oversupplied with rooms.

ADR YTD Jan - July 2017 v 2018



Source: Trending

Supply activity

- The 147-bedroom Maldron Hotel Kevin Street opened in July and is the first of three hotels due to open in the Dublin 8 area. The proposed Aloft Hotel will open in November, adding 202 bedrooms to the area. Construction is under way at hotelier John O'Sullivan's site at the Coombe. The 234-bedroom hotel will be branded as lifestyle hotel Hyatt Centric and is due to open in May 2019.
- Planning permission has been granted for a 98-bedroom hotel on South Great George's Street. The hotel will be located at on the corner of Stephen Street Lower and South Great George's Street.
- Tetrarch Capital has submitted plans for a 117-bedroom hotel at the Royal Irish Automobile Club on Dawson Street.
- Fitzwilliam Real Estate Properties has sought planning permission for a nine-storey, 257-bedroom hotel beside Arnotts department store in Dublin city centre. The proposed hotel will be adjacent to their 365-bedroom Motel One hotel.

- A number of new hotel brands have been announced for the Dublin hotel market. A 96-bedroom hotel located at Benburb Street in Dublin 1 is to be branded by budget chain Easy Hotel, while the former Parliament Hotel on Dame Street is to increase by 77 bedrooms to 120 and be branded the Hard Rock Hotel.

Transaction activity

- Canadian hospitality group Westmont has acquired the Hilton Hotel, Dublin Airport. The 166-bedroom hotel has been sold for approximately €22.5m.
- Hotel Ibis, located just off the Red Cow interchange, has been sold for more than €14m, which reflects a price per room of c.€93k. The hotel was recently refurbished and was sold subject to an existing franchise agreement with Accor.
- There are currently three 5-star hotels actively for sale: the Heritage Hotel & Spa, Killenard, The K Club and Druids Glen Hotel & Golf Resort.
 - The Heritage Hotel & Spa comprises 98 bedrooms, conference and banqueting space and a spa. The sale price is guiding at €9m. The hotel is adjacent to the Seve Ballesteros championship golf course, which is not included in the sale.
 - The K Club in Co. Kildare has been brought to the market through agents Savills. The sale includes the 134-bedroom 5-star hotel, two Arnold Palmer-designed golf courses and two club houses. The sale is guiding at €80m.
 - Druids Glen Hotel & Golf Resort located in Newtownmountkennedy, Co. Wicklow has been placed on the market for a guide price of €45m. The 5-star resort includes a 145-bedroom hotel and a 349-acre estate with two 18-hole championship golf courses.

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.

Smart decisions. Lasting value.

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