

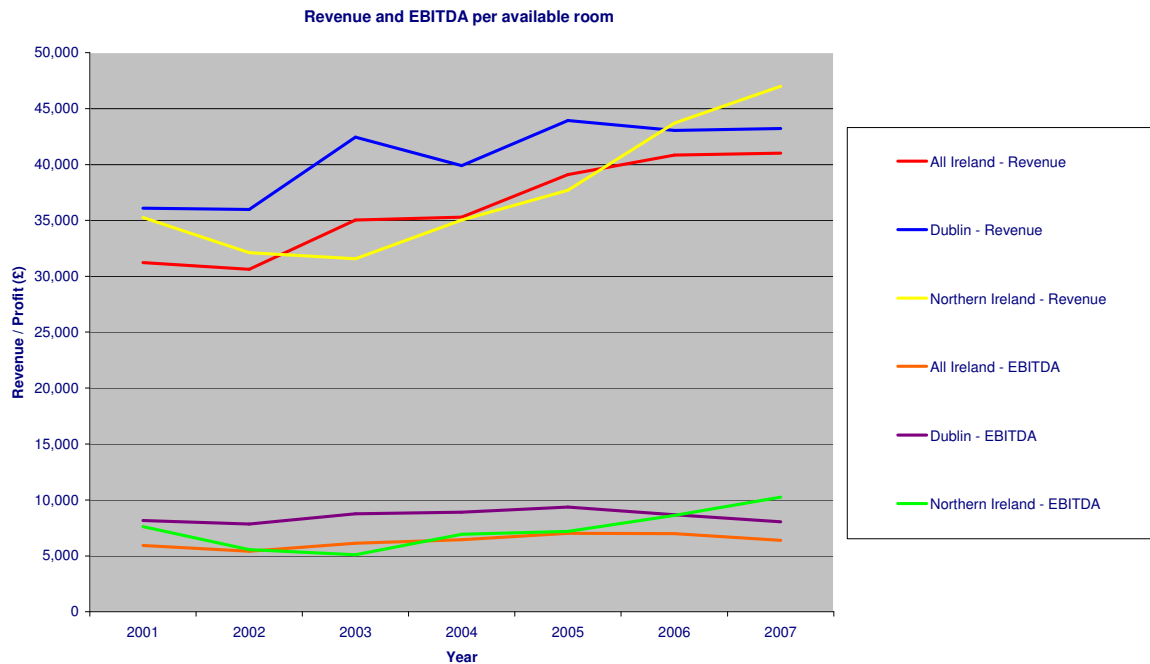
Hotels sector – a top performer, but can it last?

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ASM Horwath has been producing its Hotel Industry Survey for 13 consecutive years. The most recent publication (2007) reveals that Northern Ireland hotels had their best year on record.

Average bedroom occupancy rates reached 72.9%, with average bedroom letting rates of £64.99 (net of tax). Unsurprisingly, Belfast based hotels generally out performed these averages with a bedroom occupancy rate of 78.9% and letting rates in excess of £75.

The improving performance of Northern Ireland hotels over the past number of years has not been limited to room revenues. Food and beverage department income has also improved and operating costs have, by and large, been kept in check. The result is that average sales and earnings before interest, tax, depreciation and amortisation (“EBITDA”) per available bedroom in Northern Ireland have experienced dramatic increases and now exceed every other region in Ireland, including Dublin.



Our strengthening economy has boosted business visitor numbers while our enhanced profile in international markets, improved air access and high quality events venues has helped to increase the number of out of state leisure visitors and conference delegates. Consequently, the demand for hotel accommodation and services has increased at a rate that exceeds the significant increase in bedroom supply over the past number of years. In certain areas and in Belfast particularly, hotel accommodation has been at a premium in terms of both availability and price.

Existing hoteliers have benefited from the long lead time for new hotel supply and the slow pace of new development relative to Ireland (where 8,500 bedrooms were added to the supply side between 2005 and 2007 as against approximately 500 rooms in Northern Ireland).



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While there is much speculation about new hotel development locally, this is largely centred on Belfast with approximately 800 bedrooms scheduled to enter the marketplace in the next 12 months. Other planned projects could add the same number of bedrooms over the next 4 years, but the current Credit Crunch is likely to delay, or to lead to the abandonment of, many of these projects.

Against the background of faltering economic confidence and increasing costs the key question for the industry is “**Can the current level of performance last**”.

It short, it seems that while the sector may experience a modest dip in performance in 2008 and 2009, the future prospects for investors and operators are bright. Here are just four of the many reasons why I am confident about the future:

- ◆ the industry in Northern Ireland has not suffered from the significant over supply problem that is affecting the sector in Ireland;
- ◆ in 2007 Ireland welcomed 8.3 million out of state visitors, approximately 4 times the number of visitors to Northern Ireland. A 15% reduction in this differential translates into a near 50% increase in visitors to Northern Ireland. Over the medium term this cannot be viewed as an unrealistic proposition;
- ◆ there is a real ‘push’ by the Northern Ireland Tourist Board and the Northern Ireland Assembly to maximise the opportunities that tourism presents. This will take time, money and patience, but at least the contribution potential of tourism to the local economy is now being recognised in the “corridors of power” - this a major step in the right direction; and
- ◆ accessibility to the country has improved beyond recognition over the past 3 years. This is evident in the increasing number of visitors from ‘Euorland’ that have been using hotels. Provided the majority of the new air routes can survive the fallout from the Credit Crunch, Northern Ireland is well placed to benefit once economic stability and confidence returns, as it must at some point.

None of this should detract however from the emerging challenges that the industry is likely to face in the next 2 to 3 years. Now is the time for proactive management to control costs, maximise sales opportunities and to pay close attention to cash-flow. But let us not forget that the industry in Northern Ireland has faced much more difficult challenges in the recent past and it survived them.

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