



NORTHERN
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HOTELS
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Hotel Market in Northern Ireland

A report from the Northern Ireland Hotels Federation
on two decades of hotel development.



OCTOBER 2019

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**In two decades
hotel bedroom
numbers have
doubled.**

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Two Decades of Growth

This report takes a snapshot of the hotel sector looking at some notable periods of growth and market change over the last two decades.

The Hotel Sector in 1999

The average occupancy in 1999 was 58% with an average room rate of £49.46. There were just over one million hotel rooms sold in the year producing room revenue of £50m.

The arrival of a new millennium saw a change in the market. The number of hotels started to reduce with small establishments closing. Larger hotels were constructed, usually in urban conurbations, and by 2005 hotel rooms had started to grow.

A period of major expansion took place in the years between 2005-08 when there was a flurry of construction and room numbers reached the 7,500 mark; an increase of 50%.

Budget hotels arrived in force with over 1,000 rooms opening across a number of brands. Most notable in this was the arrival of Premier Inn, which opened over 500 rooms in a three-year window. Two new five-star properties were added, the market shifted up a gear in terms of grade to four star and independent operators tried to differentiate themselves from the budget offering.

Occupancy reached a peak in 2007 at 72.9% and visitor numbers broke the 2m barrier.

Increased room supply resulted in occupancy falling to 69.3% in 2008 but room rate reached a record high of £70.58. Visitors grew steadily in the noughties and spend reached £396m that year. The market was well placed for

the boomtimes with new stock, diversity of product and good visitor interest.

Nothing had prepared us for carnage of the global downturn, which saw occupancy and rate fall for a record 38 months through to April 2012. Occupancy, ADR and RevPAR tumbling month on month created a very challenging business climate for hotels.

New hotel development dried up, bar the completion of a couple of projects including The Merchant, The Fitzwilliam and two IBIS hotels.

Room numbers stuck around the 7,600 mark as the industry battened down the hatches and weathered the fiscal storm. To the sector's credit there were few closures over the period but trading was tough, finance was under pressure and the hotel industry was not seen as a good investment as property values fell through the floor.

The Our time, Our Place campaign brought fresh hope to the market. Titanic Belfast opened, the Giant's Causeway got a new visitor centre and we had a year of celebration. Additional budgets were found and suddenly tourism was back on the map.

Occupancy started to rise along with rate and with that fresh shoots of investment appeared. New hotels were planned; the bulk of them in Belfast but Derry-Londonderry saw growth and others extended, refurbished and refreshed their products.

	1999		2009		2019	
Grade	No of Hotels	No of Rooms	No of Hotels	No of Rooms	No of Hotels	No of Rooms
Five Star	2	303	4	421	4	365
Four Star	12	981	27	2614	47	4431
Three Star	45	2009	42	2169	52	2394
Two Star	38	1048	31	850	3	91
One Star	30	423	8	135	0	0
Budget	0	0	9	930	15	1566
Ungraded	10	129	17	491	24	701
Totals	137	4893	138	7610	145	9548

Table 1: Northern Ireland Hotel Stock 1999-2019

Type	Premises	Rooms
Hotels	145	9,548
Guesthouses	80	713
Guest Accommodation	207	1099
Bed & Breakfasts	601	1,994
Self-Catering	3,468	4,541
Campus Accommodation	10	4,496
Bunk Houses	9	29
Totals	4,520	22,420

Table 2: Accommodation Stock by Sector

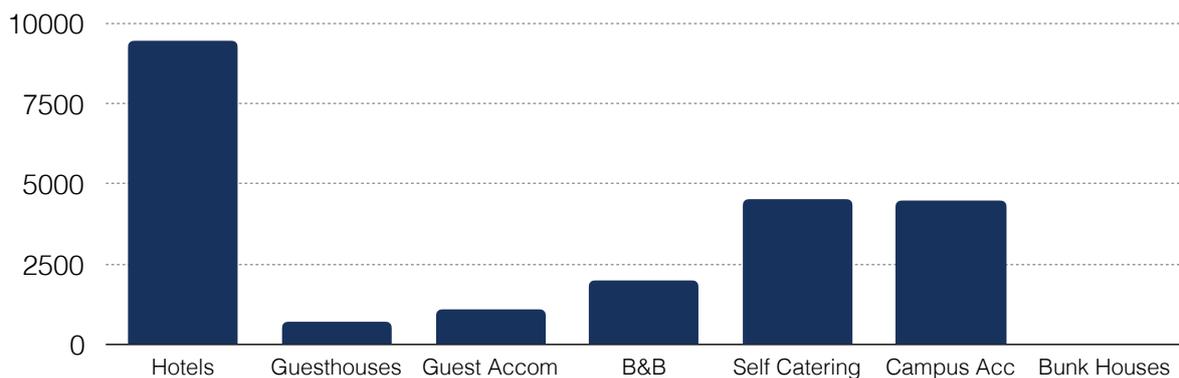


Chart 1: Accommodation stock by Sector based on Room Numbers

Hotel Sector in 2019

Among other changes, four-star hotel rooms have increased by 350% in two decades.

Hotels in 2019 v 1999

In October 2019, there are 145 registered hotels in Northern Ireland. In the last 36 months, hotel numbers have increased by 1,900 rooms, the bulk of them in Belfast.

Table 1 shows how the mix of product has altered and is barely recognisable as the same market as 1999. There is a large amount of budget product with three- and four-star hotels accounting for over 70% of the bedroom stock. No one-star properties remain and there is a dwindling two star offering. Lower graded products have decided to go ungraded or have opted for an alternative categorisation.

Construction has slowed down throughout Northern Ireland and the number of new projects coming into the public domain has also fallen away. There are nine types of accommodation in the current Tourism Order and these may change and expand as the industry undergoes another reinvention.

In a widening of our analysis and in recognition of changing consumer choice, we have included campus, bunk house and self-catering along with the more traditional offerings (see Table 2 and Chart 1).

These are included in our analysis as their numbers present a challenge for hotels as they are effectively often chasing the same business. There is limited data in terms of availability and occupancy for some of these sectors and they may opt to trade on a more

seasonal basis. A review of accommodation certification has been mooted and this could result in a redefining of accommodation types, the introduction of new categories and refining current legal requirements.

A point to note is that the major booking platforms are now including alternative accommodations in their offering and are reporting good growth in this area in terms of stock. They have also stated that inclusion of this type of product has not resulted in a reduction of bookings in the hotel sector but has simply widened their appeal.

Airbnb is a “platform” and not a type of accommodation. Many think it’s just a spare room in a house or a holiday self-catering unit. This is no longer the case; the company has also diversified offering full-service products alongside their more traditional stock. Business customers are finding the “home away from home” and independent living aspects of their offering appealing and this has diluted business traffic in some destinations. This is very difficult to quantify in any meaningful way due to the dynamic nature of the business and lack of key metrics.

All registered accommodation types have seen growth. In particular, guest accommodation, guesthouse and self-catering. The Open brought a surge of available property in the North Coast. It is difficult to predict how long this will stay in market.

Hotel Performance and Developments

Hotels are going through a period of adjustment to take account of the market expansion. While occupancy is down, rate has remained flat.

Hotel room numbers were predicted to break the 10,000 level by late 2020. At this time, it would appear that it will be 2021 before this milestone is reached. A number of projects that were to open in 2019 have been delayed due to planning, fiscal restraint or a change of direction. A number of constructions have opted for certification in another category: generally guest accommodation or self-catering.

In 2019 the industry is undergoing a period of consolidation; incorporating additional hotel stock into the market has had some effects with occupancy on a YTD basis showing some signs of stress with a drop of -3.4%.

After a solid 2018, 2019 is proving difficult to call with a slow start and a strong summer. As Q4 approaches the market is experiencing a slowdown, with Brexit uncertainty coming to the fore.

Current performance to the end of August gives an occupancy level of 72.4% (-3.9%), ADR at £79.43 (-0.3%) and RevPAR £57.49 (-4.2%). With the summer behind us, forecasts suggest a dip in the year overall with demand not catching up with supply.

The next six months may be volatile with travel uncertainty, currency pressure and possible deflated consumer sentiment. Economic growth has been downgraded in the short term. However, in the hotel sector, underlying growth in demand, limited new product coming to market in the short term and a well invested product are reflected in a positive forecast for 2020 with single percentage point gains across all key performance indicators.

A busy summer was helped by The Open. Occupancy for the period was not as high as

expected and remained at the same level as last year, however ADR was up 22.4% at £98.15 and RevPAR increased by 22.8% to £76.24.

There are a couple of factors to note. A lot of new product was certified on the North Coast in the non-hotel categories and they picked up a lot of business. The shoulder periods around the Open were quiet giving hotels little opportunity to yield. The traditional golf tour market tends not to book when there are large competitions due to demand and no availability on courses.

Reports for next year suggest that there will be a strong legacy from the event and it is hoped that another Open can be staged in the near future to increase Northern Ireland's appeal as a golf destination.

Belfast Developments

There are no projects due to open imminently and some of the ones planned may yet open as alternative products. We have not put firm dates on these.

- Signature Living has effectively withdrawn from the market leaving three sites for sale. The progress of these or their end use is unclear at this time.
- Rooms in Belfast have increased by 34% in hotel terms with additional stock in guest accommodation, campus accommodation and self-catering increasing supply considerably. It is important to note that a number of new projects are not opting for hotel status but going to self-catering and guest accommodation.
- There are likely to be no further new hotel rooms added in 2019. Signature Living projects are on the market and unlikely to proceed until they find a purchaser.

- A shift in grading has taken place with some hotels being realigned to brands rather than star ratings.
- There is a new tranche of activity underway with considerable stock predicted for 2021. This includes a number of new players and brands for the city with current forecasting indicating about 600 bedrooms coming on line.
- Demand in Belfast is up about 8.3% YTD; room rate and occupancy rallied over the summer and RevPAR remains depressed.
- All forecasts have revised economic growth down and this coupled with uncertainty makes it difficult to predict the last quarter.

Northern Ireland Developments

Expansion beyond Belfast has also slowed down. Fourteen projects with an additional 680 rooms were in our forecasts. Of the 14 projects, six have opened and the majority of the others will move into 2020 or beyond. Planning, finance and the uncertainty of Brexit are having an effect on their completion.

In addition to new builds, there are a number of other projects of note. The Dunadry has upgraded and refurbished and has now achieved four-star status. The Galgorm Collection has announced a multimillion-pound upgrade to The Templeton, including a new wedding venue. A sale of the Hilton Templepatrick is also ongoing and it may rebrand on completion.

Below is a brief synopsis of activity by region:

Derry-Londonderry

A reasonable performance last year but little growth in demand this year at 0.2%. The city has 778 rooms including the opening of the Phase 1 Holiday Inn Express. This is an 18% increase in hotel rooms and has already had

some impact on rate and occupancy figures. A further 40 rooms are in planning for Phase 2.

The Open brought an elevated rate and good RevPAR but trading in the shoulder period of the event was not as buoyant. Concerns about the seasonality of the destination and the level of business required to maintain profitable business levels have been voiced.

North Coast

Planning continues to be the impediment to hotel development in this region, with The Merrow losing a judicial review. The Open brought real bounce to the region with all accommodation performing well over the event. A substantial amount of new product in non-hotel categories has come into the market: self-catering, guest accommodation and high-end guesthouses have all opened. A number of them are hoping to capitalise on the opportunity that the Open brought in 2019 and build on the golfing legacy it should create.

Newry, Mourne & Down

Some progress on a couple of projects in this area but no openings are imminent. Killeavy Castle has now opened and the Downpatrick Hotel and Newcastle Promenade have progressed to consultation. Other projects are still possible in this area with a number of investors holding back until there is a clear picture on Brexit.

Northern Ireland (regional excluding Belfast)

The number of new projects coming into the public domain has slowed. With over 1,000 bedrooms in planning, growth will continue, albeit at a reduced pace. Some of this may be stalled, reaching the market after 2021.



Chart 2: Northern Ireland Hotel Room Growth Forecast to 2020

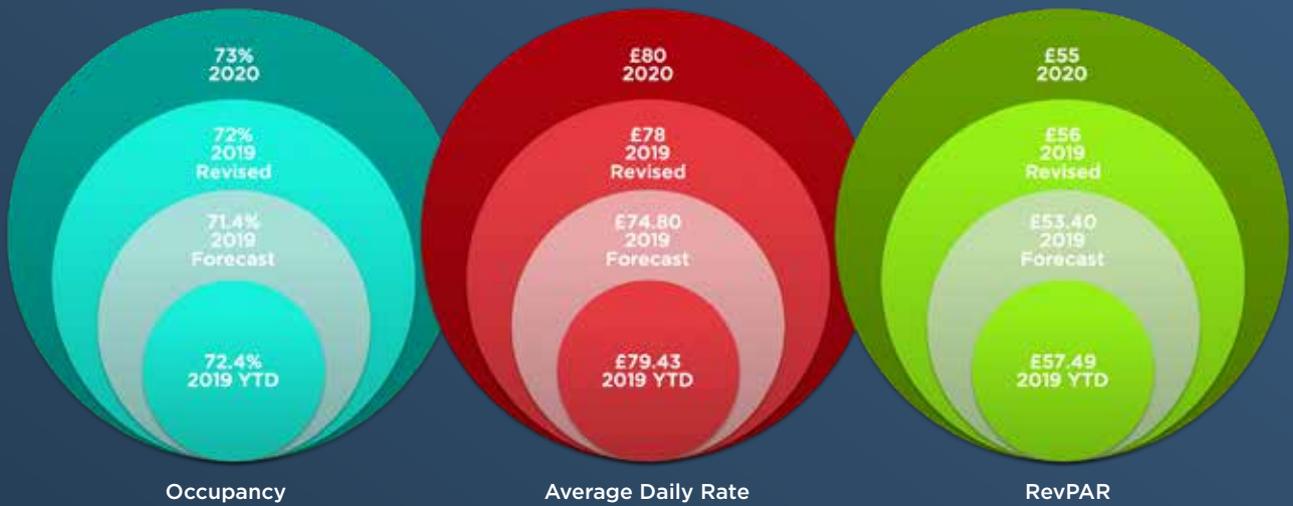


Chart 3: Northern Ireland Market Forecast. Source: STR

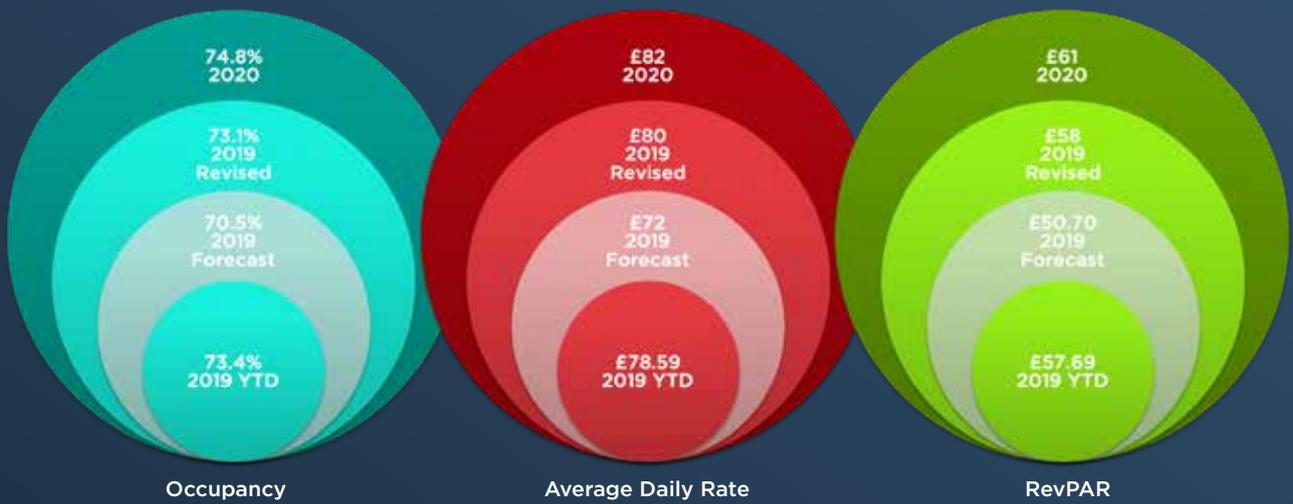


Chart 4: Belfast Market Forecast. Source: STR

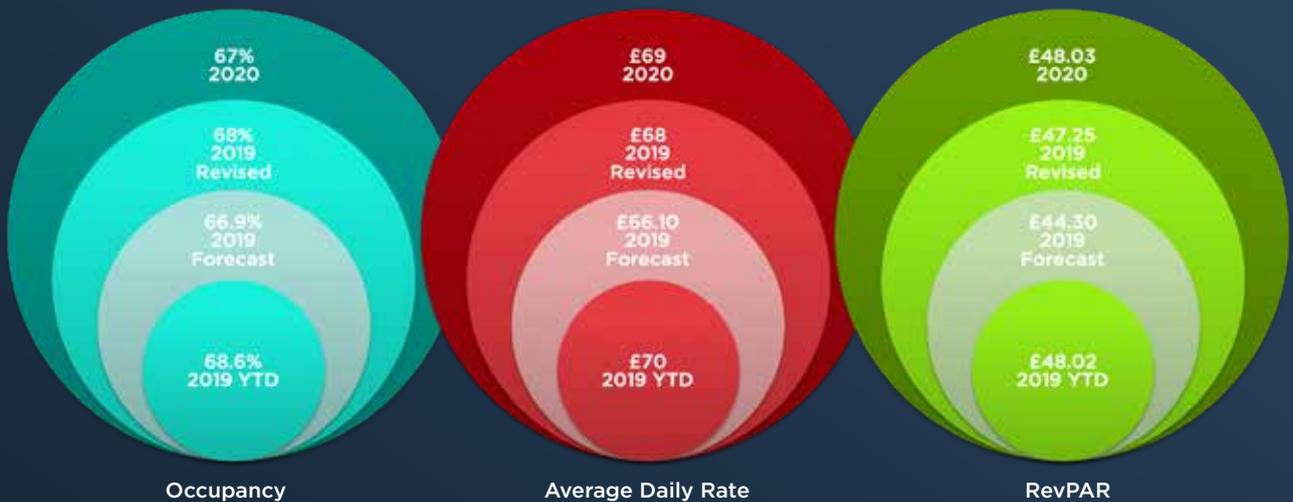


Chart 5: Derry-Londonderry Market Forecast. Source: STR

Forecast for 2020

Demand continues to grow and 2019 forecasts have been revised upwards, based on year-to-date performance.

As we approach the end of 2019, it is important to put matters in perspective and reflect on the amazing journey the hotel sector has been on over the last two decades. The industry has invested in the region of one billion pounds and doubled the number of hotel bedrooms.

Over 25% of today's hotel room stock is under 5 years old and 75% of the market is 3 star and above.

Northern Ireland has attracted some of the world's leading brands, while developing a strong indigenous hotel product. In 2019, even with a prudent estimation, 2.4 million hotel bedrooms will be sold. In 1999 we sold just over 1 million bedrooms.

Today the hotels sector supports in the region of 15,000 jobs between direct and indirect employment.

Hotel room revenue will have increased by an estimated 290% since 1999 using forecast figures for 2019. Even removing the effects of inflation, this is more than double the revenue generated in 1999.

The forecast created by STR in 2019 has already seen improvement and has been adjusted upwards. The balance of 2019 will be difficult to call. Brexit is like an invasive smog. It has cast a dull hue over all aspects of business and creates a sluggish environment. Its impact is difficult to quantify and until we have sight of a clear path and outcomes from

the process, business will be impacted.

Northern Ireland Forecast

The original forecast created for 2019 has been moved upward as performance YTD has been better than predicted. The last quarter is very difficult to call and reports suggest a patchy overall performance.

Belfast Market Forecast

This market has a more in-depth study. However, it is important to note that a strong performance over the summer has not lifted the ADR above £80 and the RevPAR figure may not grow in Q4. A market update is available in November as a purchased report from STR. The new stock has been in market since June 2018 and from July onwards the market is a like-for-like performance.

Derry-Londonderry Market Forecast

Please note there are some issues in relation to figures for July in the city which have depressed the market performance. These are being investigated and should be reflected in a more accurate manner in the yearly report. New product will deflate occupancy in the last quarter of 2019 and into 2020.

There is insufficient data to forecast other regions with any accuracy at this time.

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**Hotel bedroom
sales are forecast
to reach £195m
in 2019.**

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Conclusion

Brexit looms large on the horizon and is affecting consumer confidence. Challenges remain with staffing but rooms sales have held up.

Hotel expansion has slowed throughout 2019 with very few projects still in construction. It is likely that a couple of new developments will start in 2020 and the market will seek to rebalance itself to accommodate new stock added over the last three years.

The market has grown dramatically since 1999 with new stock, increased economic contribution and significantly increased employment. The industry is cyclical and goes through periods of record performance, followed by construction, followed by consolidation. Demand continues to grow and forecasts from 2018 have been revised upwards. Hotels will sell in the region of 2.4m rooms in 2019.

Outside influences and confidence impact on the sector and it is important that we spread the risk of business across different customer segments and geographic locations. Brexit has become the big issue. No sign of a solution and reports about the effect of a no deal Brexit for Northern Ireland are heightening concerns and reducing overall consumer confidence. The economy has slowed in Northern Ireland and forecasts are sluggish for the coming year.

Another Brexit effect has been on staffing with EU nationals exiting the local workforce and heading home or to regions where they have a more secure future. The value of Sterling has been another influencing factor in their departure. Its value against their home currency has fallen and earning in Euro is a better option. Skilled staff have always been an issue and the dwindling of supply from the EU workforce has exacerbated an already difficult situation.

Confidence and competition are affecting the market. Lack of confidence has led to

consumers holding off on bookings, businesses cutting back on travel and conference planners deferring the staging of events. Business lead-times are well down with customers in all sectors holding out for a possible last minute discounted price. Inflation has also started to bite with growing wage costs as the sector tries to attract new people. Inflation is also driving up the cost of food and services as currency values affect imports.

Competition has often been seen as more hotels and this is easy to identify. But other types of accommodation are growing and available on booking engines. These expand the choice for visitors and are vying for the same customer as the hotel trade. Student accommodation, guest accommodation and self-catering are all on the increase. Platforms such as Airbnb are also causing disruption in the market.

Expansion of the industry has seen the effects of rapid growth concentrated into a short timeframe. Pressure on rate and occupancy in Belfast is likely to continue for the remainder of the year but demand growth has remained high, running at 8.3%. Some segments are under stress and are struggling to grow. Business tourism is one with limited activity and a real challenge to attract international business. A review is underway to look at this sector, assess its potential and identify marketing interventions.

There will be challenges in the coming months but the hotel industry is a well-invested sector, which has shown resilience over the years. Hotels have become adept at adjusting to external forces and continue to demonstrate their commitment to the Northern Ireland economy.



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