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VROOM!

REDEFINING THE HOTEL SECTOR

BOUNCING BACK

How can the UK hotel sector re-engineer itself to emerge from the COVID-19 crisis in a strong position?

Hotels and the wider hospitality sector have been among the worst-hit industries during the COVID-19 lockdown. There will be new challenges when hotels are able to re-open, but also opportunities for operators and investors able to adapt quickly to the post-lockdown world.

UNLOCKING THE HOTELS LOCKDOWN

The Government has unveiled its three-step plan out of the COVID-19 lockdown, which has allowed businesses in some sectors to re-open. However, hotels remain in full lockdown, except where they provide accommodation for specific reasons set out in law, such as for key workers or the homeless. Hospitality businesses will have to wait until step three of the Government plan, which is expected no earlier than 4 July, and is subject to five tests being met and future scientific advice.

If hotels do re-open in July, the sector will have endured one of the longest and most damaging lockdowns to hit any part of the UK economy. The hotel industry is currently in survival mode, with businesses focused on conserving cash and liquidity until operations can resume.

KEEPING HOTELS AFLOAT

A range of government measures have been crucial in helping hospitality businesses keep afloat during lockdown, including a 12-month business rates holiday, grant funding and loans, and the coronavirus job retention scheme. However, these have not been enough to prop up all hotel businesses, and several smaller and independent operations have gone into administration since the beginning of the lockdown, with COVID-19 cited as a contributory factor.

Leased hotel operators were given some respite by the lease forfeiture moratorium, which prevents landlords from repossessing premises from

businesses unable to pay rent until 30 June. Hospitality industry bodies have lobbied for an extension to the moratorium; without this, the end of June could be a crunch time for the sector, with quarterly rents due to be paid.

The onus remains on landlords to work with hotel businesses to investigate options such as the deferral or waiving of rents until hotel revenues return. However, battles are brewing between some landlords and tenants; Travelodge has warned that it may have to pursue company voluntary arrangements (CVAs) unless landlords agree to cut rents until the end of 2021.

STAYCATION-DRIVEN RECOVERY

Many hotel operators will be keenly hoping that they are able to re-open in July, so that they can have some semblance of a summer season. It is possible that there will be a boom in UK staycations once the country is fully out of lockdown, as people make up for the

cancellation of holidays planned earlier in the year, while international travel remains restricted.

Hotels in attractive holiday locations such as the Lake District and coastal resorts may thus be best placed to recover in the short to medium term. Guests are expected to gravitate towards well-known hotel brands, which are more likely to be trusted to implement improved hygiene and cleanliness standards than less familiar independent hotels, B&Bs or Airbnbs.

A slower recovery can be expected in hotel markets that have historically relied on demand from overseas tourists or business travellers. Tourism industry experts warn that it may be some years before international travel volumes return to normal; while business travel is likely to be down, perhaps permanently, if COVID-19 ushers in an era of increased virtual meetings and less face-to-face business contact.

THE 'COVID-SECURE' HOTEL

Even when hotels do re-open, it will not be business as usual. Social distancing and enhanced cleaning measures will need to be introduced, and thought must be given to every touch point where guests interact with hotels.

Social distancing: Public areas such as hotel lobbies and restaurants will need to be reconfigured, so that appropriate spacing can be maintained between guests. Social distance markers may be needed across hotels, with protective shields installed in areas such as reception desks. Face-to-face interaction between staff and guests should be minimised, with contactless check-in technology used if possible.

Cleaning and hygiene: Hotels will be expected to implement enhanced cleaning procedures, with all surfaces frequently disinfected and high-touch areas such as door handles and light switches regularly wiped. Menus and information guides will need to be protected with plastic covers so that they can be wiped, and cleaning staff may need to wear personal protective equipment (PPE).



In-room amenities: Hotels will need to re-think room amenities, so that the risk of viruses spreading between guests is minimised. Items that could be used by a guest and left behind in a room may need to be removed. Single-use toiletries, which many hotels had been phasing out, may be seen as more hygienic than multi-use bottles.

Food services: Hotel restaurants may need to operate at reduced capacities, with staggered meal times, to maintain social distancing. Buffet and self service facilities will need to be re-considered on hygiene grounds, while customers may also be made nervous by intrusive

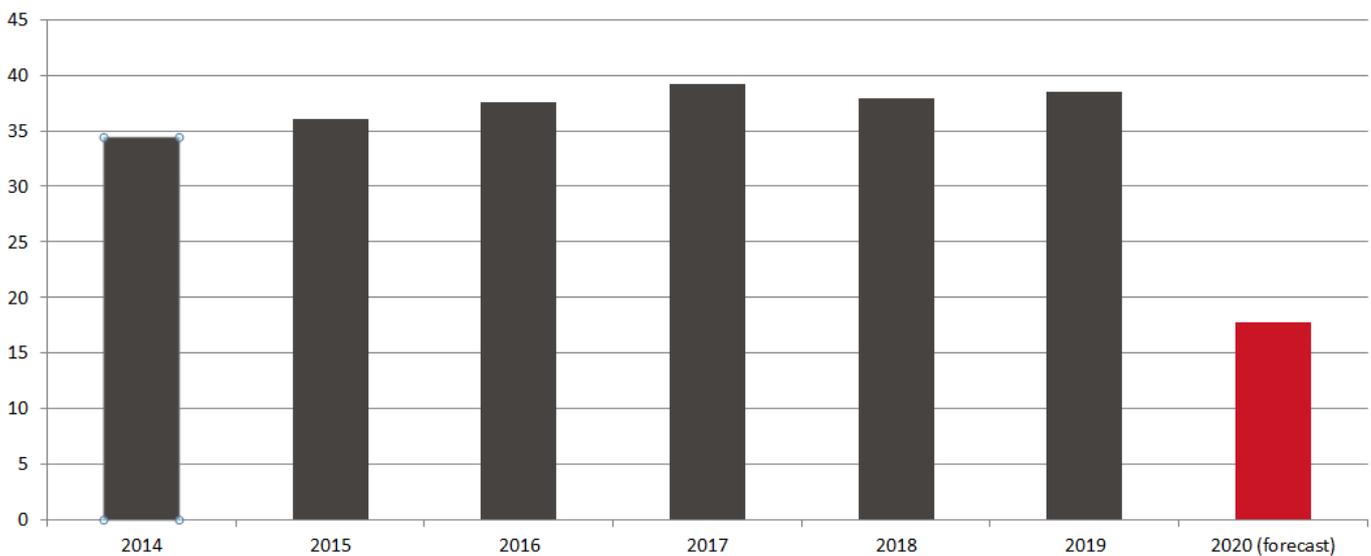
table service. Hotels could increase the serving of pre-prepared, pre-packaged food, or offer enhanced options for in-room dining.

Hotel facilities: Amenities such as gyms, pools and spas could present particular risks for virus transmission, and special attention may need to be given to social distancing and hygiene standards. Guests may be required to shower with soap and water before entering facilities, and to wash or sanitise hands before using gym equipment. Staff will need to ensure that items are wiped down and disinfected between uses.

Much of this will require a complete change in hoteliers' mindsets. Social distancing measures are directly contradictory to the attentive personal service and regular contact with guests that many would have previously seen as best practice.

Image: A mock-up of a socially distanced event space shared on social media by the Metropole Hotel & Spa in Llandrindod Wells. The room, which usually holds 130 people can only seat 22 under this type of social distancing.

OVERSEAS VISITS TO THE UK (MILLIONS)



Source: VisitBritain (2020 based on a 'central scenario' forecasted in mid-April)

OPERATIONAL CHALLENGES

All of the measures listed above have the potential to add to hotels' operational costs and to impact revenues. Hotels may be forced to re-open at reduced capacities or to offer a limited range of services, perhaps keeping facilities such as gyms closed for the foreseeable future. Hotel chains may decide to re-open properties gradually, as they trial social distancing measures across their portfolios.

Coming out of lockdown will thus just be the first step of the hotel sector's recovery. Many hotels already running on thin profit margins will find it difficult to operate profitably with social distancing in place.

In this challenging environment, a large number of hospitality businesses may struggle to pay their rents or mortgages for at least the rest of the year. Additional assistance from the Government and banks is likely to be needed to ensure that hotels do not hit a cliff edge when current support measures end. For example, further extensions to the furlough scheme and government intervention to resolve rent disputes may be required.

Independent franchised hotels will also need support from brand owners, who may need to relax franchise fees or provide financial assistance with property improvements to ensure social distancing and enhanced cleanliness. At the same time, an increased number of non-branded independent hotels may seek to enter into franchise agreements with strong brands that could help to bring business back more quickly when the lockdown ends.

OPPORTUNITIES ARISING

Not every hotel business will survive the current challenges, but those most likely to fail are hotels that were facing difficulties anyway prior to lockdown. In some cases, the COVID-19 crisis may simply exacerbate existing issues; accelerating the failure of highly geared hotel businesses that were already suffering from falling occupancy and room rates as a result of a lack of investment and improved competition before the pandemic.

Distressed assets are expected to come to the market, creating opportunities for investors with cash at hand. Investors will be particularly keen to acquire well-located hotels that have underperformed in recent years, with the aim of driving increased occupancy and room rates when the lockdown is over.

A CATALYST FOR LONG-TERM CHANGE

There may also be growth opportunities for hotel types that could be well suited to changed consumer expectations following lockdown. Aparthotels, for example, are arguably the perfect format for the socially distanced world, offering customers self-contained apartments where they can cook for themselves and need minimal contact with hotel staff. This already-growing sector could gain market share.

A further legacy of COVID-19 may be the accelerated implementation of technologies that remove the need for contact between guests and staff. Hotels have sought to balance 'high touch' and 'high tech' solutions in recent years, but they may now be pushed firmly down

the tech route. Mobile apps and digital keys that enable guests to seamlessly check in and out using their smartphones could be rolled out more widely. Major hotel groups may also prioritise the development of nascent technologies such as robot concierges and self-cleaning rooms.

LOOKING FORWARD

Historically, the hotel industry has bounced back relatively quickly after economic downturns, but the current recession is unique. COVID-19 has created challenges that could linger for months or years. In the immediate term, the need for social distancing will present operational issues, while reduced international and business travel could have a structural impact on demand.

Hotels that are able to adapt quickly to changing expectations, and to find innovative solutions to the challenges posed by the post-lockdown world, will be in the strongest position to survive and flourish. There will also be opportunities along the way for investors able to anticipate where value may emerge in the sector.

ROOMZZZ APARTHOTEL MANCHESTER. PHOTOGRAPH BY MIKE PEEL



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