# FROM SURVIVAL TO RECOVERY

## An Assessment of the Prospects for the UK Hotel & Visitor Accommodation Industry 2020-2022

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the hotel development consultancy

# 1. Introduction

For more than 20 years Hotel Solutions has been dedicated to helping UK destinations to understand how they can best support hotel and visitor accommodation development in their area. With the current COVID-19 crisis it is clear that accommodation development is not currently on the agenda. Most hotels and visitor accommodation businesses are in survival mode. Our focus therefore has shifted to helping destinations to look at how they can help their hotel and visitor accommodation industry to survive this unprecedented crisis and start to plan their recovery once it looks like coming to an end. As a starting point in this process we have compiled this paper to look at how UK hotels and visitor accommodation businesses have been affected by the lockdown, what recovery might look like for the industry when it comes, and how DMOs, local authorities and government can best support the sector over the next 6 to 12 months. The paper is based on our analysis of a wide range of research reports and articles that have been published on the impact of the COVID-19 lockdown on the travel, tourism and hospitality sectors, a number of webinars that we have watched on the subject, and surveys that we have completed of DMOs, local authority Tourism Officers, and hotel and visitor accommodation developers, operators and investors.

# 2. How Hotels & Visitor Accommodation Businesses Have Been Affected and Responded So Far

Tourism and hospitality have clearly been two of the hardest hit sectors in the COVID-19 shutdown[1]. Tourism and hospitality businesses are facing one of the most difficult periods in living memory. Most of the hospitality sector is now closed and hospitality businesses that remain open are operating at substantially reduced levels of business, which is at best contributing to reducing fixed costs.

The most immediate challenge facing hotels and visitor accommodation businesses has been dealing with a deluge of cancellations and refunds. While many guests are holding onto reservations with start dates during the summer, the emerging scenario of an extended period before full re-opening of the tourism sector is possible is likely to result in fresh waves of cancellations and refunds.

The evaporation of revenues has given hospitality businesses severe cashflow problems. Many are living hand to mouth, with a planning horizon of only a few months, if not weeks. Many are having to use their capital reserves.

[1] Supporting Jobs and Economic Through Travel & Tourism, UNWTO, April 1 2020

Many tourism and hospitality businesses have benefited hugely from the substantial government support that has been made available to the sector. Many have used the Coronavirus Job Retention Scheme to furlough their staff and avoid redundancies. In a UKHospitality survey of the hospitality sector reported on 27 April, 84% of businesses have used the scheme and only 2% have laid staff off.

Interest in the Coronavirus Business Interruption Loan Scheme (CBILS) seems to have been much lower. Hospitality businesses are less willing to take on additional debt that will need to be repaid in the future. The UKHospitality survey also highlights that this support is not necessarily reaching hospitality businesses even when they have applied for it. 48% of the responding businesses had applied for a CBILS loan but 57% of them had had their application turned down, most commonly because of government-imposed State Aid rules and banks telling businesses to exhaust their own capital reserves first.

With no income for the foreseeable future, many leased hospitality businesses may be unable to pay their rent. Travelodge, for example, has asked its landlords for rent reductions of 25-80% in order to help it survive the COVID-19 crisis. Its landlords have so far largely rejected these requests.

Many hospitality businesses are trying to pivot their business models during the lockdown in order to generate at least some income, as well as supporting the NHS, key workers and their local communities. This has included the introduction of delivery, take-away, ready meal and hamper services; giving away food that could not be used to food banks, care homes and other worthy causes; making rooms available for quarantine purposes and to NHS staff and other key workers on a free or highly discounted basis; and converting bedrooms to workspaces for office workers that are unable to work from home.

Astute businesses are staying in touch with their core customers to retain their loyalty and welcome them back once they are able to reopen. In a survey of accommodation businesses conducted by Merseyside's Sefton Council[2] for example, 58% of polled businesses reported that they are continuing to maintain social media engagement with their customers.

Some accommodation operators are using the opportunity of the lockdown to undertake maintenance and renovation work.

Some short-term let operators are switching to mid and long-term lets, for which there remains some demand.



[2] Emergency Accommodation Survey, Sefton Council. April 2020

## 3. When Things Might Return to Normal

While various debates are going on about how long it will take for the UK tourism and hospitality sector to get back to normal trading conditions, the clear consensus that is emerging is that recovery will be slow. Nobody knows what is in store post-lockdown. Uncertainty is set to continue for some time to come.

Recent UK Government announcements suggest that the tourism and hospitality industry is unlikely to return to normal trading until at least 2021 and probably not until a COVID-19 vaccine has been found and administered in perhaps 2022. The Government's Chief Medical Adviser, Professor Chris Witty, advised on 22 April that social distancing measures will need to remain in place until at least the end of 2020. This follows comments on 19 April by the Cabinet Office Minister, Michael Gove, that the hospitality industry will be the last to leave the lockdown, and comments that he made in Parliament on 28 April that people should not travel to popular British holiday destinations such as Cornwall for some time to come. These announcements point to hotels and visitor accommodation businesses missing out on at least an entire year of trade and crucially the peak summer season's business, which contributes significantly to annual profits and helps many hospitality businesses to remain open during the more fallow winter months, when they are making very little profit and in some cases losses. Seasonal tourism businesses will lose their entire season's business. Some may not survive.

Hospitality companies are expecting a slow recovery once the lockdown restrictions are lifted. In a recent KAM Media survey of 211 hospitality companies[3] 83% of respondents expect customer numbers to be down for at least 6 months after reopening and 38% think it will take at least a year for trade to return to pre-lockdown levels. STR[4] is reporting no sign of any pick up in UK hotel occupancy until at least September. Other commentators think that any return to normal trading is unlikely in 2020 and may not happen until 2022. STR is not expecting UK hotel performance to return to 2019 levels until 2022. UKHospitality anticipates that it will take around 18 months for the industry to recover.

Major events and sporting fixtures, which generate significant high-rated business for hotels, look unlikely to restart for a long time to come.



[3] Hospitality in Lockdown, KAM Media, April 22 2020
[4] STR COVID-19 Webinar: UK & Ireland Hotel Performance Analysis, April 24 2020

The impact of the pandemic on household incomes and the impending global economic recession and likely rise in unemployment also point to a slow recovery. Recent consumer research[5] shows that 45% of consumers feel impacted financially by the crisis, and 16% have been hit hard. Many have taken reduced pay, are on furlough, or are having to dip into savings. The over 65s have been less affected financially, although some may have seen falls in their pension pots. Younger age groups have been hit the hardest.

## 4. What Recovery Might Look Like When It Comes

While the current crisis is clearly having a dramatic impact on the UK tourism and hospitality sector, all indicators point to an eventual market recovery. Going on holiday, seeing friends and family and having a day out are all high on people's wish lists for when restrictions are lifted[2]. Once the crisis is over people will want to travel again. While Britons look set to skip their summer holiday, people are keen to book staycation breaks from the autumn if they can.

All commentators expect domestic travel to recover more quickly than overseas travel. Fewer domestic trips have been cancelled and the majority of those cancelling UK trips intend to rebook once things return to normal[6]. Only a minority expect this to be before the summer. Day trips and staycations are likely to recover quickest and may see strong growth in the medium term, once normal trading resumes.

The scientific evidence shows that COVID-19 spreads more easily indoors that outdoors. Restrictions on holidays and short breaks in the outdoors are likely to be lifted sooner therefore, suggesting that rural destinations and accommodation businesses may come out of the crisis more quickly than those in urban locations. People are likely to initially avoid city breaks and trips to crowded places, such as seaside resorts.

Inbound tourism is likely to take longer to return. Short-haul demand looks set to recover first, with demand from long-haul countries taking longer to rebuild.



[5] Tracking Consumer Sentiment on the Impact of COVID-19, BVA BRDC/ Alligator Digital, April 9 2020
[6] Holiday Trends 2020

Business travel looks likely to be slower to return, with many companies placing restrictions on travel budgets and looking to do business as cost effectively during the likely impending economic recession. The massive shift to doing business online during the lockdown may have a significant lasting impact on business travel if it continues once restrictions are lifted.

The conference and exhibitions market is likely to take some time to recover. Industry professionals do not expect the business events market to return to any semblance of normality for at least 12 months[7]. The increase in Zoom conference calls during the lockdown may become the norm going forward, dramatically reducing demand for face-to-face meetings and conferences as a result.

The indications at this stage point to a likely phased lifting of restrictions. Hospitality businesses will need to adapt to a 'new normal', with social distancing measures, extra cleaning regimes, the wearing of face masks, and possible restrictions on guest numbers. Hotels may be allowed to reopen their bedrooms ahead of their bars and restaurants. It may be difficult for some hospitality businesses to restart profitable operations under these circumstances. Reopening may not be viable if operating losses are likely to be more than the costs of keeping hotels closed.

## 5. The Long-Term Impact on Consumer Behaviour

Euromonitor predicts that the COVID-19 pandemic will bring about lasting changes in consumer attitudes and behaviours. Consumers, including older demographics will do more things online. Social media use has increased. Health and wellbeing will be much higher on people's agendas. People will want to get outdoors more and connect with nature and the environment.  People will value spending time with family and friends more highly. The pandemic will accelerate a shift to a cashless society. The environmental bonus of the crisis may bring tackling climate change into sharper focus. These trends will further accelerate the trend towards online researching and booking of holidays and breaks. They could also change the types of destination, accommodation and holiday experiences that consumers are looking for in the future.



[7] COVID-19: Business Events Recovery Sentiment Survey, Davis Tanner, April 2020

# 6. Winners and Losers

It is clear that there are going to be winners and losers in terms of destinations and accommodation businesses that will be less or more adversely affected by the crisis and likely to recover more quickly or slowly.

In terms of potential 'winners':

- Rural destinations and non-serviced accommodation businesses (holiday cottages, touring caravan and camping sites, holiday lodge parks, glamping sites and holiday parks) are likely to recover the quickest as they have greater potential to offer safe, socially-distanced holidays and breaks. They should also benefit from the anticipated growth in staycations and the increased interest in outdoor holidays, nature and the environment that is likely to have been stimulated by people having spent time enjoying the outdoors as part of their daily life during the lockdown.
- Accommodation that offers health and wellbeing experiences should benefit from the focus that many people have had on their fitness and mental health while they have been staying at home.
- While they have been badly affected, serviced apartments have not seen such sharp drops in occupancy as hotels, largely because of their trading in the corporate extended stay and relocations markets.
- Small lifestyle businesses with lower overheads are likely to be more resilient and able to bounce back more quickly once confidence returns.
- Tourism and hospitality businesses with strong environmental sustainability credentials may benefit from the heightened consumer awareness of the benefits of addressing climate change and reducing carbon footprints.
- Accommodation businesses that can cater for family and friend get togethers, such as large holiday cottages, rural hostels, caravan and camping sites and glamping sites, may be able to bounce back quickly once restrictions on social gatherings are lifted.

In terms of potential 'losers':

- With their high wage and operating costs, hotels have been particularly badly affected and are likely to emerge from the crisis more slowly than other types of accommodation.
- Coastal resorts are particularly under threat. Research from the Centre for Towns[8] clearly shows that coastal towns have been disproportionately affected by the lockdown, with a quarter of all workers in closed sectors. Resorts such as Newquay, St Ives, Skegness, Llandudno, Rhyl, Whitby, Minehead, Mablethorpe, and Cleveleys, with 40-56% of employment in shut down sectors, were highlighted as being especially affected. Resorts look set to lose their entire season's business. Hotels and guest houses in seaside locations could be under threat of closure as a result. Some resort DMOs fear that they could lose as much as 25-50% of their accommodation stock, leaving the spectre of boarded up accommodation businesses along seafronts.
- Destinations and hotels that rely heavily on the coach holiday market are likely to see a slower recovery given that many of these customers fall into the vulnerable over 70s age group. Seaside resorts and hotels will be particularly hard hit by the loss and slow recovery of this market.
- Geographically Londoners have been the hardest hit financially[9], so those destinations, hotels and accommodation businesses that rely on this market for day and short break visitors may be more adversely affected and slower to recover.
- Destinations and hospitality businesses that rely on major events and sporting fixtures to drive high-rated demand are losing out on the revenue boost that they provide. This has particularly affected London, with the cancellation of major events such as the London Marathon, Chelsea Flower Show and Wimbledon. Other cities such as Liverpool and Edinburgh have lost out with the cancellation of the Grand National and Edinburgh Festival, while cities such as Manchester, Liverpool and Newcastle are missing out on the strong weekend football demand that they attract. Yorkshire will not be getting the huge boost that it receives from the Tour de Yorkshire. Many more destinations and tourism businesses will lose out if summer events are cancelled.



[8] The Effect of the Covid-19 Pandemic on Our Towns and Cities, Centre for Towns, April 23 2020
[9] Tracking Consumer Sentiment on the Impact of COVID-19, BVA BRDC/ Alligator Digital, April 9 2020

- Destinations such as London, Manchester, Birmingham, Liverpool, Glasgow, Brighton, Bournemouth, Blackpool, Harrogate and Telford that have a strong conference, exhibition and business events market look set to lose out with a much slower recovery anticipated in these markets.
- Destinations such as London, Bath, Salisbury, Oxford, Cambridge, York, Stratford-upon-Avon and Edinburgh that are heavily reliant on international visitors are also likely to take longer to recover. Luxury hotels that cater for international guests will also see a much slower return to normal trading.
- With their greater reliance on business and conference tourism, major events, sporting fixtures, stag and hen parties and nightlife visitors, cities are likely to see a slower recovery.
- Wedding venues and country house hotels with a strong weddings trade are losing huge amounts of money from cancelled weddings and may be faced with very slow recovery in this market if social distancing measures remain in place for a long time.
- The cruise holiday market has been dramatically affected. UK cruise operators have suspended their operations until the end of May, June and in some cases the end of July. With the age profile of many cruise guests and the negative coverage that the industry had in the early stages of the crisis from coronavirus outbreaks on cruise ships, it looks likely that the cruise industry is going to take a long time to recover. This will have a significant impact on Southampton and will affect other cruise ports such as Dover, Liverpool and Edinburgh.
- Airport hotels have been dramatically affected by the suspension of air travel and will struggle to rebuild trade until international flights resume. Hotels in ferry ports will similarly struggle until international ferry travel starts again.
- City hostels that rely on the overseas backpacker market may take longer to recover and may find it harder to implement social distancing measures safely.

# 7. The Impact on Hotel & Visitor Accommodation Investment

The impact of the current crisis on hotel and visitor accommodation investment to some extent varies according to the business model adopted to fund, develop and operate hotels and other forms of visitor accommodation, together with arrangements that can be negotiated with lenders and landlords which will vary on a site by site/case by case basis.

Certainly, as hospitality businesses are forced into drawing on their financial reserves or increasing their debt to survive, their ability to invest in improving their existing product will be significantly reduced. It seems likely that few hotels and visitor accommodation businesses will invest in significant capital projects until there is much greater certainty and confidence about the market in the medium to longer term. Those that had been progressing investment projects are likely to have deferred them, and may eventually cancel them if market conditions take a long time to get back to normal. Marriott Hotels, for example, has deferred all hotel renovation project until further notice. A survey of Essex tourism businesses[10] found that 75% of responding businesses have deferred or cancelled investments, developments and renovations work.

While there have to date been few COVID-19 hospitality business insolvencies, depending on how long the crisis lasts, how quickly recovery comes, and how far the government maintains financial support for the sector, huge numbers of hotels and visitor accommodation businesses could come onto the market if their current owners are forced into administration. While this could create opportunities for investors to acquire hospitality properties at lower valuations, it could leave the UK with many closed hospitality businesses, potentially blighting destinations for years to come. This could be a particular problem in seaside resorts if their seafronts are left with boarded up hotels and guest houses.



[10] Visit Essex Covid-19 Online Business Survey, Destination Research, April 2020

In terms of hotels currently under construction at the time of lockdown, where these are fully funded, developers and operators have indicated these are continuing, albeit with some delay given the new work regulations and social distancing requirements. In some cases, however, the slower pace of development has meant it is no longer cost effective to complete construction. All are concerned about opening new hotels at a time of low demand and social distancing requirements likely to mean operating at limited capacity. For these reasons also, some projects are on hold, both in terms of hotels and developments such as holiday lodge parks, and whilst they hope to restart when restrictions are lifted, they are clearly under continual review, with the first priority for funding always being the liquidity of the existing business.

Consented and planned schemes that haven't started are facing challenges in terms of two key drivers: finance and contractors. Securing lending for new schemes is delayed as banks are focusing on supporting existing borrowers. Getting realistic valuations in the current climate, and the need for supporting market feasibility studies which cannot happen with lockdown, are also holding schemes back from being progressed. Contractor availability and the impact on development cost is also felt to be an issue. Some developers and operators are using this enforced pause to work on the design and planning of schemes so that they can be in a position to move sites forward post-crisis, but with furloughed staff and planning and other staff working from home, this has also delayed action.

Many indicate that development schemes will continue to be under review given the current uncertainties, with the likelihood they will need to re-think and re-prioritise planned schemes. Whilst hotel and visitor accommodation investment partners and lenders might currently be being helpful and expressing potential interest in picking schemes up in the future, it is hard to predict the outcome that the pressure that the shutdown is putting on reserves and hence on investment strategies, with much depending on the state of the balance sheet when businesses re-emerge and start trading again.

With reduced demand, weaker performance, and the prospect possibly of widespread hotel closures it looks likely to take a long time to get back to the point where new hotel development can be supported again. Work has halted on the construction of new hotels and many future hotel projects have been put on hold. Talk of new hotel development certainly seems premature at the present time. Having said this, hotel planning applications are still being approved and there has been some press coverage of hotel developers saying that they will press ahead with new hotel schemes as soon as they can.

With stronger prospects for a quicker recovery in rural destinations and non-serviced markets, investment in rural accommodation could restart more quickly.

# 8. Towards Recovery Strategies

Destinations and tourism and hospitality companies need to be planning now for how to attract customers back once they are allowed to reopen. This includes thinking about which of their markets are likely to return soonest and devising marketing and communications strategies to quickly stimulate demand from these markets. In the recovery period the focus will initially need to be on helping destinations, hotels and accommodation businesses to quickly rebuild their trade.

A positive from the crisis is that it provides tourism destinations and businesses with the opportunity to reflect and recalibrate their forward strategies. This could be in terms of more focused marketing plans, addressing quality issues, and improving environmental sustainability. The crisis may give a greater impetus and urgency to addressing some of the structural changes that are needed to high streets and seaside resorts.

Our analysis points to two key areas that government, local authorities and DMOs need to focus on over the 6 to 12 months as part of their strategies for supporting the recovery of the tourism and hospitality sector:

**a. Managing the Crisis and Mitigating Its Impact**

Including the following measures:

- Job retention funding
- Financial support for company liquidity including grants and loans to help cover payments to creditors, ongoing fixed operating costs, and possibly rent and loan payments where negotiations with landlords and lenders have failed
- Advising hospitality businesses on managing cancellations and refunds and encouraging re-bookings
- Crisis management advice e.g. through webinars

**b. Planning for Re-opening and Initial Bounce Back**

Including the following measures:

- Advice on safe re-opening
- Supporting businesses in developing their recovery marketing plans in terms of:
  - Marketing advice and training;
  - Facilitation of, and financial assistance for marketing consultancy support;
  - Financial support for digital marketing infrastructure e.g. website renewal, commissioning professional photography.
- Financial stimulus to support refurbishment work during the lockdown and measures to improve environmental sustainability and disabled access
- Destination recovery marketing strategies targeted at markets that will bounce back quickly including:
  - Maintaining engagement with existing and previously interested visitors through CRM and social media activity;
  - Focusing on the domestic market first, and in particular markets that are likely to return soonest e.g. outdoor activity and adventure seekers, family and friend get togethers;
  - Value added promotions rather than purely price-driven campaigns that could damage a return to higher-rated business;
  - Campaigns that encourage last minute travel.
- Events strategies that focus on supporting deferred events and new events in the recovery phase, once it is safe to hold events again

In terms of timescales, with a return to normal trading conditions not looking likely in 2020 and possibly not until well into 2021 or even 2022, government, local authorities, DMOs and tourism and hospitality businesses need to be planning for a longer phase of lockdown, re-opening and initial recovery than they have perhaps been doing thus far.

In the longer-term government, local authorities and DMOs will also need to put in place clear strategies for supporting the regrowth and future development of the tourism and hospitality sector, however it seems premature to be looking at these issues when so much uncertainty remains. The focus at this stage needs to be on survival and recovery.

# 9. The Need for Government Support to Continue

While there is little evidence so far of hospitality business failures as a result of COVID-19, largely as a result of the financial support that the UK government has been able to provide, many businesses are struggling to see a way forward without continued government assistance. In the KAM Media survey of hospitality companies two thirds of those polled indicated that they did not believe that they could survive a prolonged lockdown without far reaching support from government. Many of the tourism and hospitality businesses that responded to the Essex and Sefton business surveys indicated that they will only be able to survive another 3-4 months if the current lockdown restrictions continue. Support is needed on fixed costs, rents and loan payments and it is becoming clear that hospitality businesses will need a much longer extension of the Coronavirus Job Retention Scheme given that they will not emerge from the lockdown and social distancing measures for some time to come.

With normal trading looking unlikely to return until some time in 2021 or 2022, government support for the hospitality sector will need to be maintained as lockdown restrictions are eased, at least until the end of 2020, if significant business closures and job losses in the sector are to be avoided. UKHospitality is asking for the Coronavirus Job Retention Scheme to be maintained for hospitality businesses for as long as closure is mandated, and in some form during the initial reopening period when turnover levels are likely to be substantially reduced. Financial support to help boost demand, e.g. a VAT cut for the hospitality sector, would also be very helpful.

Funding will also be needed to support national and destination-level tourism recovery marketing programmes to help the tourism and hospitality industry to bounce back quickly.

In the longer-term financial assistance is also likely to be needed to support investment in accommodation business upgrading and perhaps to kick-start the development of new hotels and visitor accommodation businesses.

Without continuing government support thousands of tourism and hospitality jobs and large parts of the country's tourism product are at risk. The challenge going forward will be whether the government can maintain the levels of support that it has been providing to the industry, and if it can't how the support that it can provide needs to be targeted to ensure that the tourism and hospitality industry has the best possible chance of recovering once the crisis is eventually over. This needs some long-term thinking and scenario planning for the recovery and regrowth phases, and could require some very difficult decisions ahead.

Our analysis suggests that seaside resorts are particularly under threat of long-term damage which some may take years to recover from. There is an urgent need for further research into the impact of the pandemic on seaside resorts and consideration of government support measures to mitigate lasting damage to coastal economies.

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