

OPPORTUNITY ENTERS WITH THE NEW DECADE



*The City and corporate Britain react badly to uncertainty but the election results and finally, Britain's departure from the EU, will remove that and hopefully, will bring a positive, proactive business atmosphere. Consultant to the hotel industry **Melvin Gold FIH** measures the odds*

UK hoteliers, especially those outside London, will probably be pleased to see the back of 2019. Politically and economically the year – and probably the previous couple of years as well – will be remembered for prevailing uncertainty. Politicians squabbled and prevaricated over Brexit while the country looked on, engaged but helpless. This hampered, or in some cases stopped, corporate decision making and investment, and this was among the factors that slowed trading among the country's hotels.

Tourism had been relatively high since the 2016 Brexit referendum, boosted by sterling's weakness, although the initial boom in late 2016 and 2017 waned or



became seen as normal during 2018 and 2019. Another boost was needed but it didn't come. London remained resilient, perhaps even buoyant, but that trend did not permeate the regions. As always seems to happen in the sector, just as trading wanes towards the top of a cycle, a plethora of new supply opens, which further dissipates demand among a greater number of hotels and impacts key industry metrics. Chartered Surveyors Knight Frank estimated that 19,300 hotel bedrooms were due to open in the UK in 2019, some 6,500 in London and the remaining 12,800 in the rest of the country. This is on top of similar levels seen in the prior few years.

Demand was not the only factor depressing hoteliers' natural exuberance. The National Living Wage (NLW) rose by a

further 4.4% in April 2019, putting pressure on the cost of wages, not only for those earning salaries at that level but also having a knock-on effect on demands from those in the supervisory ranks above. Labour shortages were also increasingly reported, although this has been the case for some years now.

Labour costs are not the only expenses line under pressure. An upward trend is evident in property taxes, energy, food, beverage and the continuing popularity of Online Travel Agencies among consumers, which brings a significant cost in commissions that can be more than 20 per cent for independent hoteliers. Profitability was certainly under pressure and for those minded to look for an exit, the transaction market was relatively subdued, affected by uncertainty. With few sellers evident, the buyers that were active were looking for sweetened deals that were unattractive to most sellers.

WHAT NEXT?

Prime Minister Boris Johnson threw the dice and gambled his way out of parliamentary deadlock; a rare December election was not on most people's Christmas wish list but Johnson saw this as the only way out. Through most of the campaign, the outcome seemed less than certain despite a Conservative opinion poll lead. Balanced reporting by mainstream media and a lack of balance in social media disguised an eventual outcome that was more decisive than most had expected. The question now is whether the Prime Minister can press forward his advantage to clear the Brexit issue from the political agenda and focus on domestic matters that satisfy and benefit his party's traditional supporters and its new found backers.

If Brexit lay behind the uncertainty that had prevailed, that has now been clarified, at least in part. The detailed discussions will then commence, the shape of a future trade agreement being the next subject on which news flow will concentrate and on which we shall feel we have become experts!

The biggest dividend the hotel industry can hope for from this unlocking of uncertainty is a resumption of corporate decision-making and a boost to consumer confidence. In reality, most leisure consumers did not appear to lack the confidence to enjoy their free time and visit hotels. The corporate environment was very different and whether they supported Brexit or were against it, they now have

little choice but to embrace the new reality, even if the detail is still to become clear. Hopefully that will spur additional corporate travel, conferences, meetings and training, all of which would boost hotel demand in lucrative segments. That would probably be the present most hoteliers would have on their wish list from the Christmas election.

There were also campaign promises about reviewing the property tax system, although that is unlikely to be a rapid process; and also financial distribution to help regenerate some towns and small cities, which again will likely take a while.

Less welcome will be a further rise in the NLW by 6.2% in April 2020, and a rise in the Minimum Wage (payable to 21-24 year olds) by 6.5%. Employment costs will rise in 2020 and the promised points-based immigration system, which may ultimately assist in overcoming labour shortages, will take time to introduce and implement.

The unlocking of Brexit-related uncertainty will probably assist the hotel transaction market and for the same reason, both buyers and sellers will have to embrace the new reality.

While 2020 is unlikely to be an easy year for the UK's hoteliers it is still likely to be a positive one. A government in a honeymoon period is usually good for optimism and after a period of corporate waiting, I expect some belt-loosening; corporate wait-and-see can only last so long. That assumed revenue growth will be hugely important for hoteliers since cost pressures will not ease anytime soon and supply growth is already in the pipeline. Failure to realise it would dissolve my optimism rather rapidly.

But a new year is always a time to be positive and look forward to what might be, not in blind hope but considered opportunity, and my decades of experience in this sector have confirmed that whatever the circumstances, hoteliers are optimists and will always make the best of the circumstances that present themselves. 

Melvin Gold FIH is a leading independent hotel consultant and commentator.

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