

Irish Hotels Federation

Presentation to Joint Oireachtas Committee on Arts, Sport, Tourism, Community Rural and Gaeltacht Affairs 5 May, 2010

Chairman, Deputies and Senators, Thank you for inviting the Irish Hotels Federation to address this joint committee on the challenges and opportunities facing the hotel and guesthouse sector in Ireland.

The challenges and difficulties include;

- Oversupply of hotel accommodation
 - Market forces being interfered with by banks/financial institutions taking possession of hotels and continuing to operate them.
- Hotel Sector over-borrowed
 - Difficulty in accessing working capital
- Unbearable level of Local Authority Rates and Charges
- An Archaic system of setting legally binding wage rates and conditions of employment- the JLC/ERO system
- Market Imbalance
 - Over dependence on domestic market
- Access/ Transport Barriers
 - Shortage of Car for hire
 - Impact of Air Travel Tax/airport charges

The opportunities and advantages which we should build on and support include;

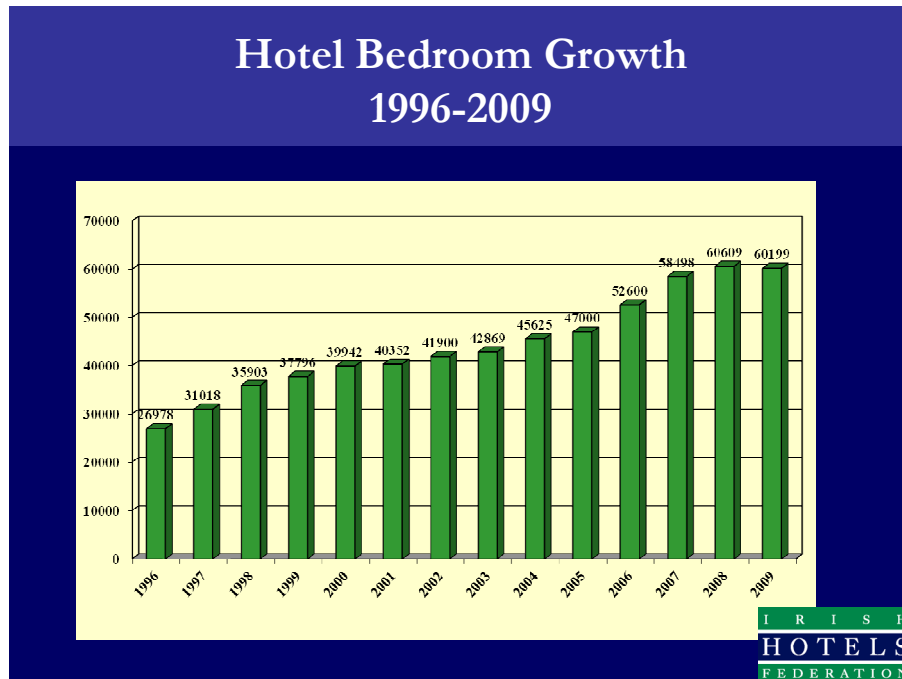
- Excellent quality hotel stock
- Reducing Cost Base (with exception of government/local authority costs)
- A committed and well trained staff
- High level of customer satisfaction
- Committed state agencies

Oversupply of Hotel Accommodation

There are now 903 hotels in Ireland with 60,200 bedrooms

This has increased from 43,000 room in the last seven years and from 27,000 rooms in the last fourteen years.

You have with in the paper submitted to you a chart which outlines the growth of capacity.

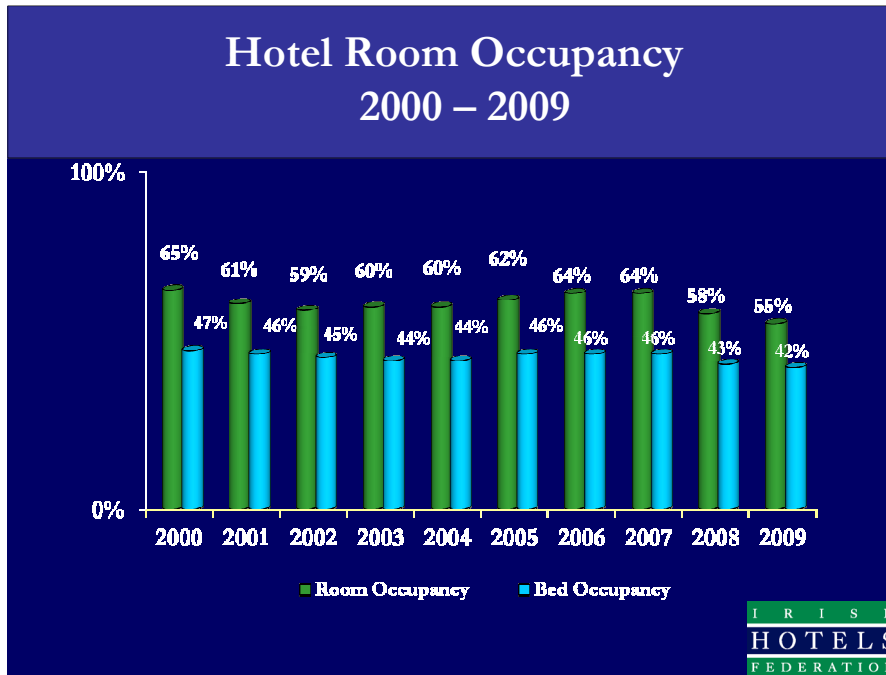


The development of all of the extra hotel rooms was incentivised by the developer being able set off, against income tax liability, the construction cost of hotels; against his rental income over a seven year period with there being a claw back of the tax benefit should the properties cease to operate as hotels within the seven year tax life. Much of the development was driven by the attractions of the tax shelters and the business plans supporting the investments did not take into account the effects of an industry over capacity or the economic downturn which we are experiencing.

The demand for hotel accommodation has not kept pace with this rate of expansion.

The hotel occupancy rate has fallen by 15% since 2007 and now at 55% is the lowest level since the early 1980s

There is also in your papers a chart which illustrates this fall in occupancy rates.



For a number of reasons including the overcapacity of supply, the weakness in overseas markets, particularly the British Market, and ridiculous pricing by hotels owned or supported by financial institutions due to the level of their funding exposure, prices have collapsed with falls of over 20% over the last 18 months.

There are only two ways in dealing with the supply and demand challenges - grow the volume of demand or reduce the supply of hotel bedrooms.

The growth in demand will be a long demanding process and the success of which will to a large extent depend on the growth of overseas markets. As 70% of hotel bedroom business comes from Irish customers the challenge is to maintain this in the light of the current economic difficulties. The provisions in last December's budget maintaining the Tourism Marketing Fund at €44.25m and the extension of free train travel to overseas visitors aged 66 and over were two very valuable contributions to the efforts to grow the markets

Normally, market forces would force hotels with unsustainable borrowing and debt levels to fail.

However, this has not happened, primarily due to the reluctance of banks to realise losses and write down loans advanced to hotels that have no prospect of recovery. This is because of the additional pressure this would place on the capital adequacy of banks' own balance sheets and a reluctance to act in advance of the introduction of NAMA. Furthermore, hotels in which major investment was made which benefited from tax allowances need to remain open for seven years to allow investors to retain capital allowances.

The result is that the burden of excess capacity is not being borne by the new entrants that have caused the problem or by the banks that have financed the bad investments. This would be the case in a properly functioning market, where failed entrants would be forced out. Instead, the burden of adjustment is, in effect, being transferred by banks away from

themselves and onto the hotel sector as a whole, thus threatening the viability of hotels which are fundamentally competitive.

This is damaging the entire hotel sector. The downward spiral of prices is now threatening the survival of established and viable businesses, many of which are vital to the long-term strategic objectives of Ireland's tourist industry. Furthermore, the reluctance of banks to provide working capital to potentially solvent hotels is leading to liquidity problems that further undermine their businesses.

The situation gets worse as one looks at the asset value of hotels. The significant drop in the value of hotel property combined with the high level of debt in the sector now points to a situation where, taken in its entirety, the sector is insolvent.

In summary we have, at present, three hotel sectors ;

- Solvent and struggling to remain solvent
- Insolvent and at mercy of market
- Insolvent and subsidised by banks

The solution to this capacity issue is going to be difficult and complex but it must involve the removal of all barriers to insolvent hotels which wish to exit the market e.g. removal of claw back on tax reliefs where hotel ceased to operate or changed their use within their seven year tax life, flexibility of local authority planning regulations for change of use to similar uses such as step-down health care facilities, language schools, student accommodation etc.

There must also be pressure on the regulatory authorities to take into account the consequences for the hotel sector at large of a lack of foreclosure against fundamentally insolvent hotels. The authorities should ensure that banks fully recognise bad loans within the hotel sector and face any capital adequacy issues that might follow.

Should foreclosures come about and debt be written off, measures are needed to ensure that these hotels do not continue to trade as this would do nothing to reduce over supply, but simply add to pressure on existing viable operations.

Bank Credit and Liquidity

The Government and the State have already taken a substantial share of the risk of the banking sector in nationalising Anglo Irish Bank and investing in other Irish institutions to ensure that the capital adequacy levels of Irish banks are maintained and in providing guarantees to depositors and bondholders. This was seen as necessary to ensure the survival of the banking system.

Notwithstanding these actions liquidity is a serious concern for many otherwise viable hotels which might be forced out of business due to the lack of working capital.

Hotels are very seasonal in terms of cash-flow. Normally the busy season generated enough cash to repay the overdraft of the previous winter and provide a reserve to help get through the following winter. The collapse in hotel activities commenced in about June of 2008 and accelerated since. The level of cash reserves available to hotels entering the winter of 2008 were seriously depleted and the very weak 2009 season resulted in a greater need for working capital entering last winter.

This can create difficulties in businesses meeting new bank lending criteria. Due to the recession, banks have changed their risk perception and assessments and there are many otherwise potentially viable enterprises which do not meet the new more stringent banking conditions. As a matter of urgency we believe the Government must increase the flow of working capital credit to enterprises at affordable terms. A useful model in this regard is the

UK Enterprise Guarantee Scheme for SMEs. We propose that the Government should introduce a guaranteed loan scheme with the banks on the following conditions:

- a) A limit of €150k in additional credit per enterprise
- b) The Government provides a guarantee up to 50% of the advance
- c) The guarantee premium of an extra 2% per annum be paid by the borrower
- d) The scheme lasts for a maximum period of two years

Unbearable level of Local Authority Rates and Charges

The reduction of costs and improved productivity are crucial to even the most efficient well funded hotels surviving in the current extremely difficult environment.

The biggest single cost over which hoteliers and guesthouse owners have no control is local authority rates.

Prior to the enactment of The Valuation Act 2001 businesses could seek a revision of their rateable valuations on a number of grounds including a deterioration in the profitability of the business. The 2001 Act removed this method of seeking relief on the basis that the legislation envisaged that every rateable property in the country would have its valuation revised every five to ten years.

It is now eight years since the 2001 Act came into force and only two of the 88 rating areas in the country have had the revisions carried out by the office of the Commissioner of Valuation. At this rate it will take over twenty years to complete the process in all rateable areas notwithstanding the intention in the legislation that the revised valuations would be further revised every five to ten years.

The revisions which have been completed have resulted in the local authority rates liability of hotels being reduced by on average more than 30%.

Based on this experience it is reasonable to suggest that if the revisions were completed in the remainder of the country similar results would be achieved.

In the meantime hoteliers are being forced to pay excessive rates particularly at a time of very difficult trading circumstances.

Under Local Government (Rates) Act, 1970, local authorities, may with the consent of the Minister for the Environment, introduce a scheme to waive all or a portion of the rates due by a class of ratepayers. In recent weeks the Irish Hotels Federation wrote to most of the rating authorities requesting that a 30% waiver of rates on hotels be introduced and every reply received to date indicated a refusal to introduce such a waiver scheme.

It is now the view of the Federation that only option is for the Government to introduce emergency provisions providing a 30% reduction in Local Authority rates applicable to hotels and guesthouses until such time as these properties have had their rateable valuations revised as provided for in the 2001 Act.

This is an emergency issue for most hoteliers and guesthouse owners as they just have not the trading income or cash-flow to pay the current level of local authority rates.

The JLC/ERO System

The hotel sector is governed by the Joint Labour Committee (“JLC”) system, which was created by the Industrial Relations Acts of 1946 – 2004 . The JLCs and not the government set the legally binding minimum wages and conditions of employment for a number of sectors including hotels outside of Dublin city , Dun Laoghaire and Cork city.

It is worth noting that the Industrial Relations Act 1946 replaced the Trade Boards Act of 1909 and most of the provisions in the 1946 Act just updated the legal provisions of legislation, which is now over 100 years old.

The economic and regulatory environment in which Ireland operates today is unrecognizable from its counterpart 100 years ago when the current system was conceived. The National Minimum Wage Act 2000 complements about 40 other employment protection statutes which now protect the legal rights of employees.

These radical changes over the past century have made the JLC system obsolete. If there was any sound basis for it up to the year 2000, that basis was lost with the enactment of the National Minimum Wage Act 2000 which has provided Ireland with the second highest gross minimum wage in Europe. It is noteworthy that the UK equivalent of the JLC system – the Wage Council mechanism – was abolished in 1993 and has not been replaced.

The creation of Employment Regulation Orders by the Joint Labour Committee system is fundamentally unfair in that it creates legislation, a breach of which can deem an employer to be criminally liable. This legislation is selective in the businesses to which it applies and the wording and drafting is completed within an industrial relations process and not through the normal legal draughtspersons’ process which would be applied in the drawing up of primary law.

It is our belief that employment law should be created by legislation introduced by the Oireachtas and applies to all employments and not created by organisations such as the Joint Labour Committees or the Labour Court. Therefore the present JLC/ERO system should be abolished.

Market Imbalance – Over-dependence on Domestic Market

Almost 70% of the bed-nights in Irish hotels come from customers living on the island of Ireland. The 11% fall in the number of overseas visits in 2009 further highlights the difficulties on this issue.

This over dependence on the domestic market, which is under serious pressure due to the economic uncertainty, is apriority to be addressed.

It is important that the government continues to support overseas marketing of Irish tourism The provisions in last December’s budget maintaining the Tourism Marketing Fund at €44.25m and the extension of free train travel to overseas visitors aged 66 and over were two very valuable contributions to improving the flow of foreign visitors.

In order to facilitate growth in overseas visitors to Ireland we must always be vigilant to remove any likely obstacles or barriers being put in the way of visitors. The introduction of the air travel tax last year is such a barrier and the likelihood of a shortage of car hire cars for the coming summer is also likely to be an issue.

The Positives of the Industry

Notwithstanding the difficulties outlined we have a great industry employing over 200,000 excellent people and reaching into every parish in the country.

The quality of hotels and guesthouses is excellent and of a higher standard to most of our European competitors.

Due to the challenges of survival we have continued where possible to reduce our cost base and thereby become more competitive.

Independent surveys report a very high level of customer satisfaction and a willingness of satisfied customers to recommend Ireland to friends.

We are also fortunate that by any international standards we have a Government which clearly acknowledges the importance of tourism and in Tourism Ireland and Failte Ireland two highly committed state agencies which support and market the industry.

Finally Chairman thank you for the opportunity to address this Joint Oireachtas Committee and we will try to deal with any matters which the members may wish to raise.

