OUTLOOK

AIB's Series of Sectoral Research Reports

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HOTELS

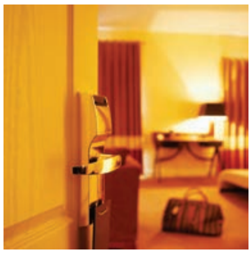
in association with

IRISH HOTELS FEDERATION

AIB

OUTLOOK

CONTENTS



SUPPORTING THE IRISH HOTEL SECTOR

Welcome to the second in our series of reports covering key sectors within the Irish economy.

This second report focuses on the Irish hotel industry and the role it plays in the country's tourism industry, one which is vitally important to the overall economy.

The aim of these reports is to analyse key components of the Irish economic landscape and provide expert opinion, guidance and advice from some of the stakeholders within each sector. They also provide some important insights into how AIB is working to support the growth of these sectors.

An important dimension is specially commissioned in-depth research which has been carried out by Amárach Research. The research findings highlight the key issues that are impacting on each sector and the measures that companies are taking to deal with these issues.

Figures compiled by the Central Statistics Office (CSO) for 2012 show that 6.51m tourists, from around the world, visited Ireland during 2012. In the first quarter of 2013, tourism numbers are up by 7.4% according to the CSO and anecdotal reports suggest that 2013 could be one of the best years for the sector since the downturn.

Tourism-related enterprises provide an estimated 180,000 jobs throughout the country. Preliminary estimates for 2012 suggest that tourism accounted for €5.7bn in spending, €1.4bn in taxes and represents approximately 4.7% of GNP.

At the core of this vitally important industry is the Irish hotel sector which employs 54,000 people. With over 850 hotels around the country, they will play an important and significant role in Ireland's economic recovery.

HEAD OF AIB BUSINESS BANKING, KEN BURKE AND IRISH HOTELS FEDERATION CEO, TIM FENN PICTURED AT THE LAUNCH OF THE HOTELS REPORT.

AIB recognises that since the downturn, the Irish hotel sector has experienced difficulties. The bank is wholeheartedly committed to the growth and development of the Irish tourism industry and it has enjoyed a long relationship with the hotel sector for many years. Indeed AIB is the only Irish bank that has a dedicated hotels team operating within its corporate banking division and it has been to the fore in developing a wide range of solutions for the sector.

AIB has collaborated closely with the Irish Hotels Federation (IHF) on a number of key initiatives all of which are aimed at strengthening the sector and the human talent that is driving it forward. In this regard, we are delighted to have the opportunity to partner with the IHF on this report.

As this report shows, there is evidence that the worst may be over for the Irish hotel industry. Asset values are a lot more stable, the number of tourists visiting these shores is on the increase and hoteliers are keen to invest in upgrading and refurbishing their properties.

The Irish hotel sector has also proved to be quite resilient down through the years and this is testimony to the great wealth of expertise and knowledge within the sector and the tourism product that Ireland has to offer both international and domestic tourists. This bodes well for the future of the sector.

As a banking partner to many hotels around the country, we fully understand the nature of the day-to-day pressures hotels face and AIB looks forward to delivering simple, effective and innovative solutions that will contribute towards the recovery and growth of the sector.

I hope that you find this report interesting and useful.

KEN BURKE
HEAD OF AIB BUSINESS BANKING

THE FUTURE'S BRIGHT

The Irish hotel industry is looking forward to a period of renewed growth after a number of difficult years, according to research which has been commissioned by AIB, in association with the Irish Hotels Federation and carried out by Amárach Research. The research also points to new levels of optimism, resilience and innovation within the Irish hotel sector.

Despite a few difficult years for the Irish tourism industry, Irish hotels have seen their turnover increase in 2012. This has been driven by growth in the number of overseas tourists as well as demand from the domestic market, much of which is being driven by value-breaks as well as growth in the couples/over 55s market.

Many hotels throughout the country are planning to invest in upgrading and refurbishing their properties within the next three years. The bulk of this investment will be funded by hoteliers themselves with the majority of them planning to reinvest retained profits to fund this investment.

Hoteliers are also a lot more optimistic about the medium term outlook for the sector with a majority of hotels, 67%, saying that the tourism sector will improve within the next three years while 71% believe that the financial performance of their own properties will improve within the same time-frame.

Not surprisingly, the research also reveals that amongst the main concerns facing Irish hotels are local authority rates and rising wage costs with the latter accounting for a significant percentage of a hotel's annual turnover. Potential increases in utility costs and any reduction in visitor numbers are viewed as perceived threats amongst those hotels surveyed. Other concerns to feature included competition from rival hotels, over-supply in the sector and reduced profit margins. And finally, access to finance, where 5% of respondents said it was their top concern.

The research also shows that Irish hotels were quick to respond to the downturn by introducing special deals, reducing costs while embracing digital marketing by better utilisation of their websites, the internet and social media platforms. In addition many hotels have been busy up-skilling in all areas of digital marketing over the last 12 months.

Some of the key highlights of the AIB/Amárach Research survey include:

- 54% of hotels saw turnover increase in 2012 with only 26% saying it had decreased.
- 67% of Irish hotels expect the tourism industry to improve within the next three years.
- 71% of hotels also expect their own business to improve within the same time frame.
- 55% of hotels say they will improve and grow their businesses over the next three years.
- The average capital and refurbishment spend equates to around 14% of turnover.
- 54% of hoteliers do not currently have a succession plan in place for their business.
- Guest profiles are changing with hoteliers reporting an increase in the number of couples, over 55s and domestic tourists.
- Online bookings now account for 56% of all bookings with just 31% of bookings made over the phone.

amárach research

IRISH HOTELS FEDERATION

OPTIMISM AND RESILIENCE

AFTER A FEW DIFFICULT YEARS, THE IRISH HOTEL INDUSTRY IS LOOKING FORWARD TO SOME STEADY GROWTH ON THE BACK OF AN INCREASE IN THE NUMBER OF OVERSEAS TOURISTS ACCORDING TO SPECIALLY COMMISSIONED RESEARCH BY AIB, IN ASSOCIATION WITH THE IRISH HOTELS FEDERATION. THE RESEARCH, WHICH WAS CARRIED OUT BY AMÁRACH RESEARCH, ALSO PAINTS A PICTURE OF RESILIENCE, INCREASED OPTIMISM AND INNOVATION WITHIN THE SECTOR. **GERARD O'NEILL** OF AMÁRACH RESEARCH SETS THE SCENE.

Figures published by the Central Statistics Office (CSO) for Q1 2013 show that the number of overseas tourists visiting Ireland in the first three months of the year increased by 7.4% when compared to the same period for 2012. This is indeed good news for the hotels sector as this growth has largely been driven by visitors from North America and a number of European Countries, excluding the UK.

A combination of factors – including geographical proximity, language, historical/cultural ties – has traditionally made the UK market an important source of tourism revenue. However, this market has been depressed in recent years and continues to pose a challenge for Irish hoteliers with the number of trips to Ireland increasing by a modest 1.4% in Q1 of this year.

TABLE 1: WHEN WILL THINGS IMPROVE?

THE ECONOMIC CONTEXT

The Irish tourism industry is a good economic barometer when it comes to seeing what's happening in the economy, or not, as the case may be. So how do Ireland's hoteliers see our prospects at the start of Q2 2013? The good news is they are actually very positive. Some 28% expect the economic situation in their own business to improve in the next year – twice the level expecting improvement in the economy overall. However, a sizeable minority, 43%, are taking a medium term view, and don't expect recovery for up to three years (Table 1).

Nevertheless, improved confidence is feeding through into a renewed focus on growth and investment in upgrading/refurbishing Ireland's hotels stock. In this report, we set out the basis for such confidence and its consequences for Ireland's hotel sector.

METHODOLOGY

Amárach Research worked with AIB and the Irish Hotel Federation to conduct a telephone survey of Irish hoteliers in March and April 2013. A total of 111 key decision makers in Irish hotels participated in a confidential survey. We would like to thank all those who gave of their time to share their opinions and plans with us in preparation of this report

TABLE 2: SURVEY PARTICIPANTS

Job Title (111)	%
Owner/Manager	30
General Manager /Manager	62
Other	8

No. of Hotels (111)	%
Three+	5
Two	5
One	90

Hotel Type (111)	%
Independent	78
Part of a national chain	12
Part of an international chain	10

TABLE 3: CONCERNS

	All Mentions (111) %	Top Concern (111) %
Labour/wage Costs	57	29
Local authority rates	56	18
Cost of utilities/telecoms	45	10
Competition from larger hotels	34	14
Over-capacity in the hotel sector	18	2
Reducing profit margins	18	5
Managing cash outwards	18	1
Access to finance	13	5
Reduced visitor numbers	12	7
Debt Overhang	6	4
Competition from other hospitality providers	5	0
Not enough local events/attractions	4	1
None/business is doing well	2	2

PROFILE AND PERFORMANCE

Table 2 shows the profile of the respondents to our survey. We secured answers from a good cross section of hoteliers, including independent operators right through to the international chains.

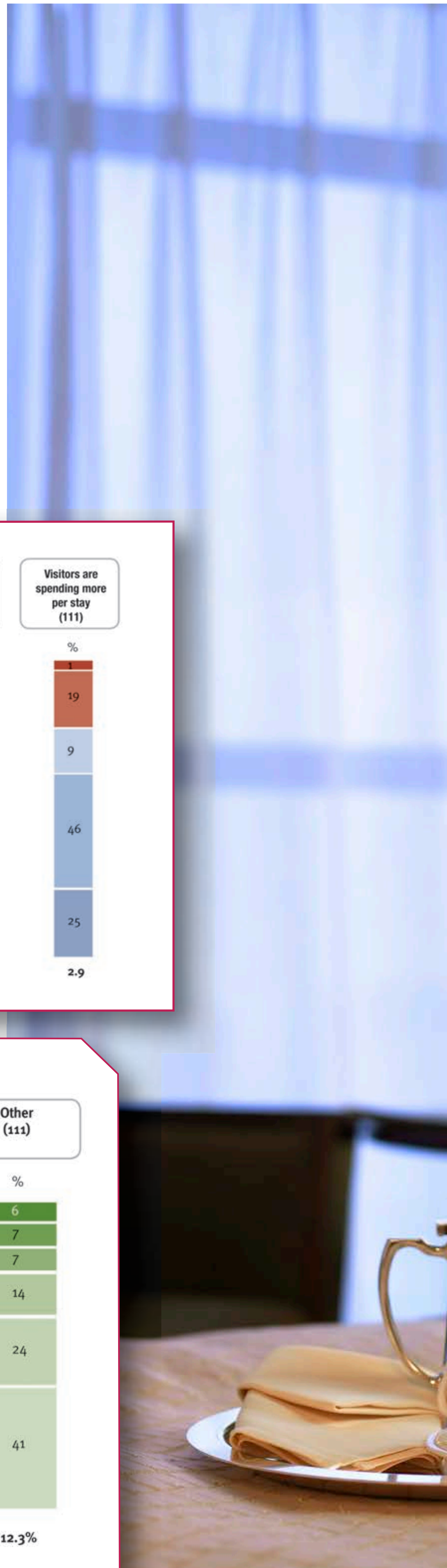
We also ensured that our sample captured a cross section of Irish hotels in terms of location, rating and turnover – broadly in line with the known profile of the sector.

Hotels are large employers in the communities in which they operate. Therefore their economic performance has very real, very local consequences for employees throughout Ireland. In keeping with the positive economic outlook of hoteliers, we find that over 50% have seen an increase in their turnover in the past 12 months, while 26% have seen a decrease.

This is not to imply that things are markedly easier for hotels than they were a few years ago, far from it. In fact, hotels continue to face considerable cost and operational pressures even as the majority experience some growth in turnover – with labour costs and local authority rates topping the list of concerns for Irish hotels. Other issues included the cost of utilities, over-capactity in the hotel sector and competition from larger hotels. Access to finance, however, was down the list of concerns (Table 3).

Labour costs account for 30-40% of annual turnover for most hotels – higher again for 4/5 star hotels. The implication is that an expanding hotel sector is good for job creation, but significant increases in labour costs (and local authority costs) are bad for the hotel sector.

AIB / AMÁRACH RESEARCH SURVEY



HOTEL INSIGHTS

Recovery in Ireland's hotel sector will play a key part in reducing unemployment simply because of the uniquely labour-intensive nature of the business. Therefore reducing barriers to employment and incentives to take on those who are unemployed will be especially relevant to hotels.

The fact that the majority of hotels in our survey are experiencing growth is very encouraging indeed, and bodes well for employment levels in the sector.

Nevertheless, continuing cost pressures from rates and other sources will inevitably constrain the ability of hotels to increase employment numbers if recovery is delayed or weak.

TABLE 4

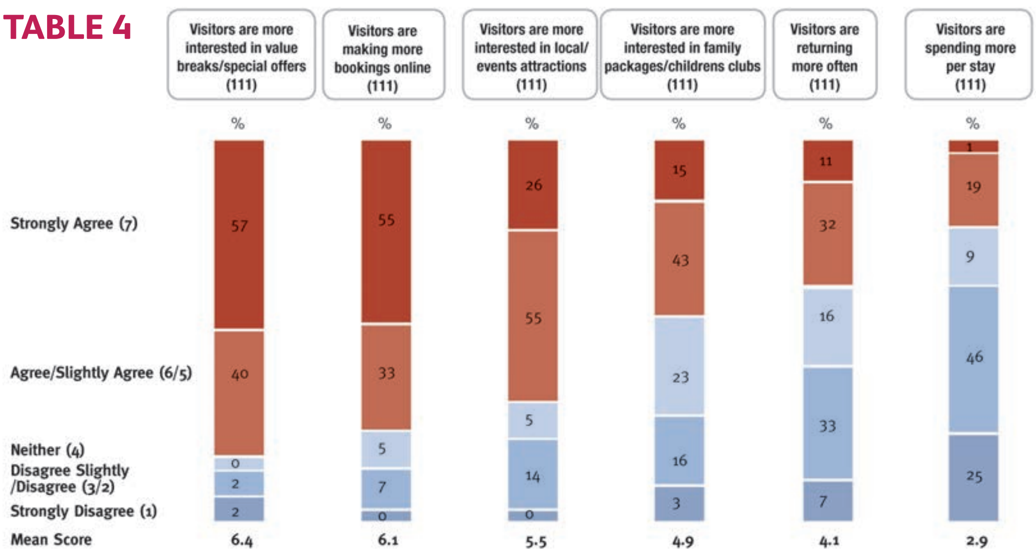
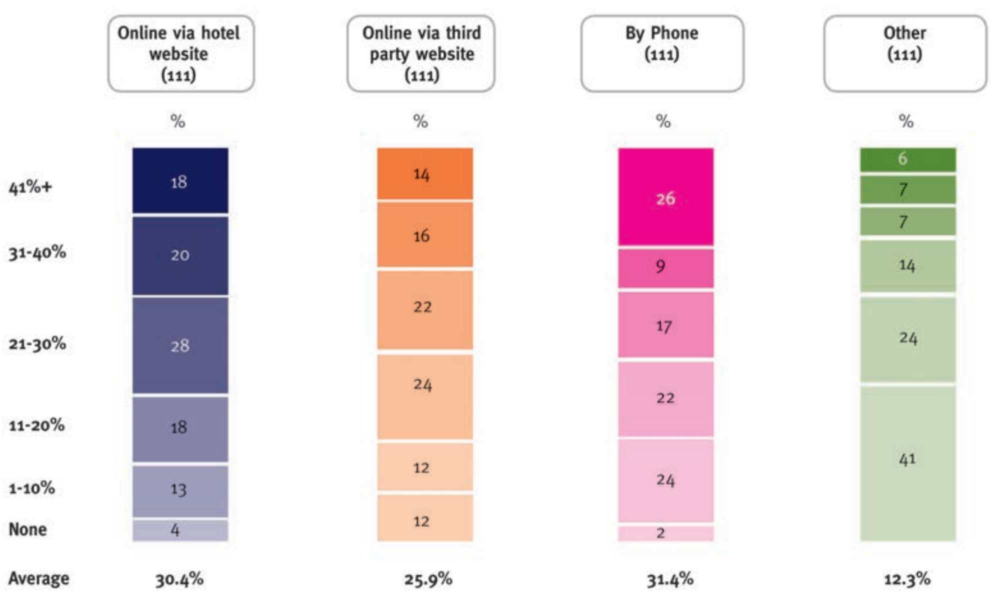


TABLE 5: BOOKING SOURCES



RESILIENCE AND GROWTH

The hotel sector has had to adjust rapidly to both value-for-money hungry consumers and the impact of the digital revolution. No wonder then that the majority of hoteliers in our survey agree strongly that visitors are more interested in value breaks/special offers and visitors are making more bookings online (Table 4).

Online bookings now account for 56% of all bookings, with just under one third of bookings made over the phone (Table 5).

Among third party websites that drive a quarter of total bookings, the main ones mentioned are Booking.com and Expedia (Table 6).

The research also shows that not only has customer behaviour changed – so also has the customer profile. Over the past 12 months, hoteliers have seen a net increase in the number of couples, domestic tourists and over 55s visiting their hotels (Table 7).

The online channel, however, is not the only driver of growth for hoteliers. The vast majority of those we surveyed had >>

An expanding hotel sector is good for job creation, but significant increases in labour costs (and local authority costs) are bad for the hotel sector.

TABLE 6: THIRD PARTY BOOKING SITES

Top 10 Sites Used (Base: 98)	All Using third party Sites %
booking.com	67
Expedia	29
Lastminute.com	24
Hotels.ie	20
Trivago	15
Irelandhotels.com	14
Laterooms.com	12
Tripadvisor.ie	6
Avvio	6
Gulliver	5

TABLE 7: CUSTOMER PROFILE

%

	Less of	No change	More of	Net Diff.
Couples	9	49	42	33
Domestic Tourists	25	33	41	16
Over 55's	15	49	36	21
Foreign Tourists	28	41	31	3
Business Travellers	32	39	30	-2
Families	17	54	29	12
Weddings	16	59	25	9
Corporate events/conferences	32	45	23	-9

AIB / AMÁRACH RESEARCH SURVEY

TABLE 8: COST SAVING MEASURES

	All Measures (111) %	Most Effective (111) %
Introduced special offers/breaks/deals	85	31
Greater use of Internet/Social Media/Mobile Apps	74	12
Switched suppliers/service providers	69	10
Reduced profit margin by reducing prices	68	5
Reduced number of floor staff (bar, kitchen etc.)	64	14
Reduced number of managers/office/support staff	60	9
Increased advertising	48	6
Temporarily closed off bedrooms/facilities	38	4
Introduced new services/facilities	37	2
Temporarily closed hotel during certain periods	32	6
Closed unprofitable hotels	4	0
Other measures	5	2
None/no measures implemented	4	N/A

TABLE 9: CAPITAL EXPENDITURE

	% of Annual Turnover (111) %
21%+	14
11-20%	17
Up to 10%	57
None	13
Average	13.5%

Amount spent on Capital Investment/refurbishment has...

	Past Year (111) %	Past 3 Years (111) %	Past 5 Years (111) %
Increased	33	30	34
Stayed the same	35	31	30
Decreased	32	40	36

introduced special offers to meet value for money demands, as well as sourcing cheaper suppliers where feasible. Since the economic downturn, unfortunately, profit margins have been sacrificed and staff levels reduced by most respondents in order to sustain their businesses through a period of falling demand and intense competition (Table 8).

Of course, cutting costs is a necessary but not sufficient response to weak demand. The hotel sector is about providing service, so the service offering cannot be compromised unduly – otherwise it becomes self-defeating. For that reason, hoteliers recognise the need to maintain and upgrade their hotels through ongoing refurbishment and capital investment (Table 9).

In our survey, Irish hoteliers reported an average capital and refurbishment spend equal to just under 14% of turnover which is a sizeable commitment in a tough market. Some spend considerably more, others spend none at all. There has been a shift in the past year to the amount spent, increasing on balance, though it was falling over the past three years.

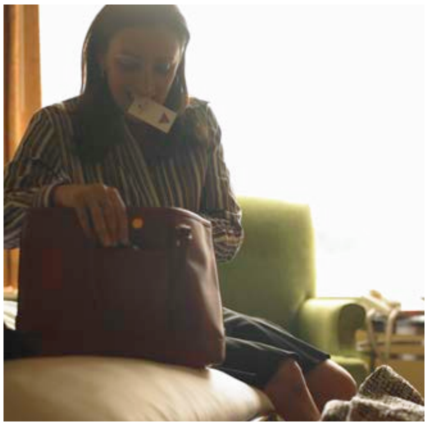
GROWTH PLANS

Despite the uncertainties still facing Irish hotel operators, the majority plan to grow and/or improve their hotels over the next 3 years through investment in upgrading and refurbishing their properties – putting their money where their optimism is.

Moreover, hoteliers see a number of major opportunities for growth emerging that justify their optimism, including the marketing potential of online enhancements such as apps, and better profit margins on services (Table 10).

For those expecting to grow their business over the next three years, the focus for now is on reinvesting the profits that come from continued trading and improving sales, followed by bank finance (Table 11).

Given the capital intensive nature of the hotel sector – and the need to refurbish the offering in order to sustain repeat business – the fact that most hoteliers expect to effectively finance this investment is an encouraging sign



of their optimism and their ability to manage recovery effectively.

However, there remain considerable hurdles in the way of survival let alone expansion for many hotels. Most view the prospect of rising costs and changes to VAT as major threats, while many would view a lack of investment finance also as a major threat (Table 12).

Hoteliers are not waiting to see what the future might bring. In just the past twelve months, half of those surveyed had undertaken training in online development, >>

HOTEL INSIGHTS
Ireland's hoteliers are focused on improving and growing their businesses, but face continuing challenges in fulfilling their ambitions. The online booking channel has become a key force for sales growth, although at a price in terms of profitability.

They are responding to shifting customer profiles with better offers and other innovations. But special offers can only sustain a business for so long, and so our findings in relation to capital and refurbishment expenditure are encouraging. The fact that a minority of hoteliers have spent nothing in the past year, or have reduced spend, indicates continuing pressures in the sector.

Initiatives such as the Employment and Investment Incentive scheme will play a part in enabling some of these hotels to change course.

TABLE 10: OPPORTUNITIES FOR GROWTH

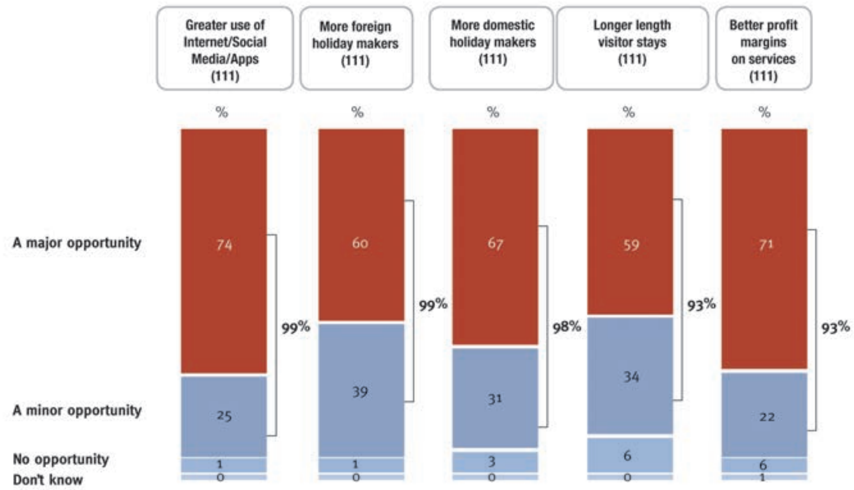


TABLE 11: SOURCE OF FUNDING EXPANSION

All planning to Expand
Base: 61*

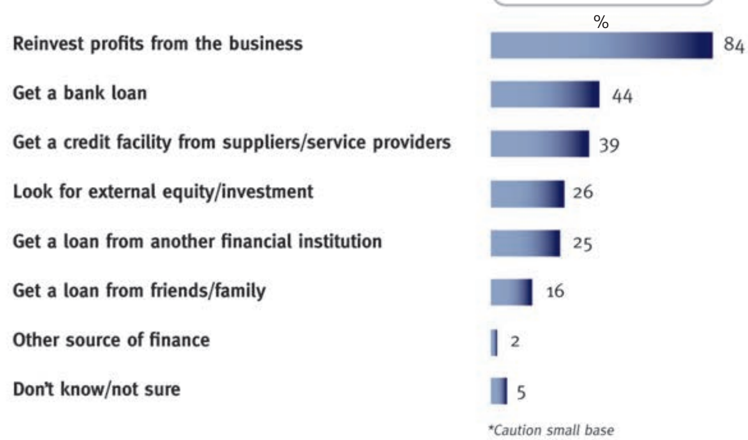


TABLE 12: MAIN THREATS

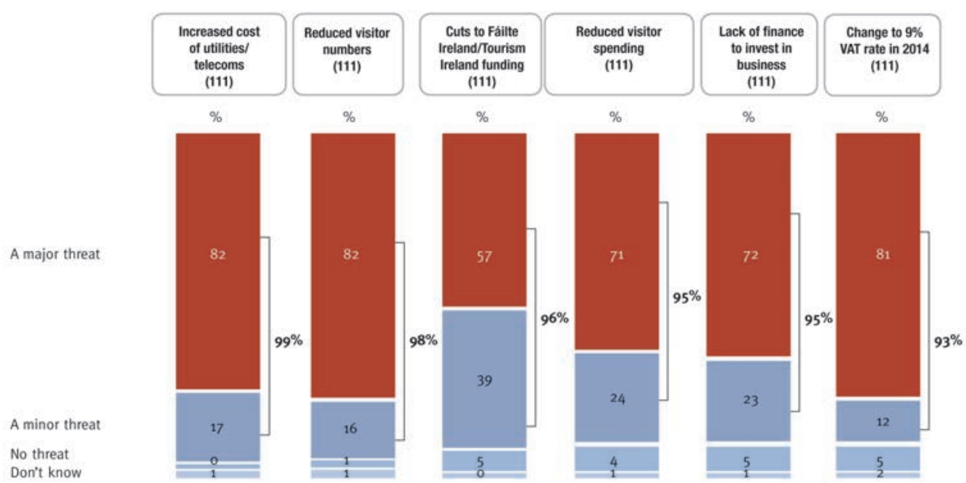


TABLE 13: STAFF TRAINING

%	Total (111)
Internet/Social Media/Apps	64
Business Planning	58
Cash Flow Management	56
Sales Training	52
Mentoring/Coaching	49
Sources of Finance	44
Debt Collection	20
None/Happy with my expertise	17

and a third had received mentoring or coaching. (Table 13).

Nor has their appetite for training and self-development been sated – the majority would be interested in future training in relation to online skills, business and financial planning skills and others as required.

BANKING RELATIONS

The banks play a crucial part in helping hotels navigate the changing market landscape in Ireland. A minority of hotels have sought different financial services from their banks in the past twelve months, though a large minority, 42%, have not sought finance (Table 14).

In terms of what makes for a successful banking relationship, flexibility and understanding of their business tops the list of preferences for hotels. Especially in relation to seasonality and its impact on finance needs. (Table 15).

Looking ahead, a minority of hotels expect to look for finance from their banks in the next twelve months (rising to 53% of those who sought finance in the past twelve months).

Looking to the medium term, many hotels have the wrong financial structure to meet future market needs, mainly as a legacy of debts built up during the boom. A third of those we surveyed would be interested in accessing private investors to help refinance their debt overhang – which may, for some, be a way of ensuring they secure a profitable share of the larger market they anticipate in the years ahead.

Finally, in terms of our survey findings, a key question for the future relates to the exit strategy of the large number of independent hoteliers in Ireland. The majority, 54%, simply don't know, but one in ten expect to sell their business (perhaps as part of a refinancing deal), while a third expect other family members to take over the business.

TABLE 14: FINANCIAL SUPPORT (PAST 12 MONTHS)

%	Total (111)
A new overdraft	32
Change to terms of existing finance	31
Renew your existing finance	28
A new loan	12
A new leasing/HP agreement	9
None/No finance sought	42

TABLE 15: BANKING RELATIONSHIP

%	Total (111)
Greater flexibility/open to negotiation	30
Better understanding of our business/seasonality	24
Access to credit/finance when needed	18
A good/personal relationship	17
Reduced fees/charges/rates	14
More/better communications	14
Trust/loyalty/honesty/transparency	10
Other	6
N/A - don't deal with banks	13

HOTEL INSIGHTS

Relations between banks and hotels have undergone a sea-change in recent years. The banks have shifted from a focus on asset values to a focus on business performance. Nearly four in ten hoteliers expect to look for financial support from their banks in the next twelve months. Support that sustains a positive cash flow, that can accommodate operational and debt servicing requirements, will be vital.

The sector is potentially very attractive to investors. The fact that a third of hoteliers in our survey are interested in exploring the potential for new investors points to a renewed appetite for investment opportunities that can generate good returns over the long run against a background of low returns from many alternative investment channels.

CHALLENGES AND OPPORTUNITIES

FOUR OF IRELAND'S LEADING HOTEL AND TOURISM EXPERTS SHARE THEIR VIEWS ON THE HOTEL SECTOR AND OUTLINE THE CHALLENGES AND OPPORTUNITIES THAT LIE AHEAD.

TIM FENN
CHIEF EXECUTIVE
IRISH HOTELS FEDERATION

The Irish hotels sector has experienced a positive start to 2013 with overseas visitor numbers up over 7% in the first quarter following a stabilisation in the industry last year. However, while performance is particularly strong for North America and continental Europe, much more needs to be done to recover the UK - our most important tourism market - which has lost significant ground since 2007.

As we approach this year's peak holiday season, hoteliers are more optimistic about the outlook for Irish tourism with most hotels and guesthouses having a positive outlook for trading conditions. City destinations such as Dublin, Cork and Galway continue to benefit significantly from event and business-related tourism while lower levels of growth are evident outside the key urban areas where hotels are more reliant on domestic demand.

As a sector, we are actively working on initiatives to help the industry grow by re-energising our marketing message and giving holidaymakers new and compelling reasons to visit Ireland. The Gathering is an obvious example with tourism businesses, industry bodies and locals communities working together to create thousands of initiatives throughout the country that provide engaging

TIM FENN

experiences for our visitors when they come. Strong community involvement brings the 'Irish welcome' to life and we believe this will be the lasting effect of the Gathering that we can build upon into the future.

Our industry also continues to benefit from a number of significant pro-tourism policy initiatives by the Government such as the reduction in VAT on food and accommodation from 13.5% to 9%. This has acted as a vital stimulus for hotels and guesthouses at a difficult time, providing a key competitive advantage when marketing Ireland as a tourism destination – both at home and abroad. Given the tremendous benefit the reduction has provided in terms of growth and employment, it is important that the Government retains this measure to secure a sustained recovery.

A key challenge our sector faces is the level of overhanging debt, which stands at approximately €6.7 billion. The Irish Hotels Federation held an investment conference last October, and it was clear from the analyses and discussions that there are emerging opportunities for the banks to support the refinancing and restructuring of viable hotels. This goes hand in hand with initiatives now underway to improve access to equity finance and support owners committed to running viable hotels for the long term.

A measure introduced by the Government this year is the extension of the Employment and Investment Incentive Scheme to include hotel and guesthouse businesses, thereby providing incentives to private investors to invest equity. This will enable qualifying hotels to restructure their balance sheets, bring debt down to sustainable levels and enable operators to reinvest in and refurbish existing accommodation stock.

It is vital that debt servicing does not compromise the ability of hotels to deliver good customer service and to continue to maintain appropriate quality service standards. Indeed, banks and investors are now valuing hotels based on enterprise value (7-10 times free cash-flow as measured by EBITDA or similar measures) rather than the asset value (building and site) alone.

Beyond financial restructuring, the hotels sector continues to face very high operating costs arising from a range of factors – most notably local authority rates. The current system of calculating rates does not take receipts and expenditure into account and imposes a disproportionate burden on hotels and guesthouses. While hoteliers have cut costs across every aspect of their business, local authorities have been unwilling to adjust to the new realities in the economy and have kept rates at pre-2007 levels, even though turnover is significantly down.

Similarly wage costs remain high, standing at about 40% of average hotel turnover according to the most recent industry report. The hotels sector views current attempts to reintroduce sectoral wage-setting mechanisms as anti-business and out of touch with the issues confronting tourism businesses across the country. With 54,000 employees working in hotels and guesthouses, the overriding objective must be to safeguard current levels of employment and create an environment that supports further job creation.

As we look ahead, there are real opportunities for growth in the sector and across the wider tourism industry. Initiatives such as the Wild Atlantic Way touring route will tap into a global market hungry to re-engage with nature. Already, we are seeing Dublin make significant strides with venues such as the Convention Centre Dublin (CCD), the O2 and the Bord Gáis Energy Theatre. Though city destinations are seeing the strongest growth, the rest of the country can make significant gains if we get the industry back into good financial shape, redouble efforts to attract a greater spread of visitors to the regions and promote specific reasons to visit – whether activity-based or focusing on heritage and culture.

PAT McCANN

PAT McCANN
CHIEF EXECUTIVE
DALATA HOTEL GROUP

We see a strong recovery in urban hotels – Dublin, Cork & Galway – with other areas flat or showing marginal improvement. The urban recovery is hopefully a precursor to recovery in other regions. However, hotels outside Dublin have become over-reliant on the domestic market since the decline of UK visitors.

The three Irish tourism bodies are doing a good job and the Gathering is believed to be a good initiative for the US market, which seems to be holding. UK visitors are critical for Irish tourism but the weakened UK economy is a contributing factor to reduced visitor numbers. Ireland seems to have lost its sparkle. We punched above our weight during the Celtic Tiger era and we really need to recapture some of the sparkle that has been lost since then.

There is no perceived change in the mix of visitors to hotels but what has changed is how visitors find us – greater use of technology/digital channels – rural/smaller hotels lag behind in the use of this technology. This means that hoteliers need to understand customer behaviour when visiting sites and how to exploit these sales channels by distributing their site to a third party and the use of Google analytics to measure/track performance.

In terms of performance, beverage sales have declined across the board and this decline is most marked for domestic visitors. Food sales are holding – mainly because of value for money improvements – as a consequence, the hotel food offering has become more attractive for foreign visitors.

There has been a demise of international hotel brands – Marriott, Sheraton, Hilton – due to reduced demand for this offering in the Irish market. Although this should provide an opportunity for small/independent hotels, the business acumen in this cohort is not developed enough and is a constraint. One possible way for smaller hotels to grow is the development of consortiums (particularly in the areas of purchasing and marketing) to leverage purchasing power. This is already happening in a small way but there may be some reluctance for individual hotels to get involved in such initiatives.

In terms of banking relations with the sector, they're no different from other industries in terms of business banking relationships. Hotels need to get into a position where they can generate sufficient working capital. This can be very difficult for some as revenues and margins continue to decline.

As many as 300 out of the 800 hotels in Ireland are in some kind of financial difficulty. The inevitable disposal of assets will suppress the market value of hotels in the short/medium term. There is a need for banks to provide reinvestment capital as hotels have become over reliant on self-funding. Those with a high level of debt are finding it difficult to access finance.

In addition, there is a need for hoteliers to up-skill their finance skills – many still do not produce regular P&L reports. Training and upskilling doesn't stop there, hoteliers' need to upskill in HR, IT, energy management, procurement.

"We punched above our weight during the Celtic Tiger era and we really need to recapture some of the sparkle that has been lost since then"

TOM BARRETT

TOM BARRETT
HEAD OF HOTELS AND LEISURE
SAVILLS

A key measure of the business performance of hotels is RevPAR, or revenue per available room. The good news is that RevPAR has been growing over the past few years, after a steep fall, with double-digit growth not uncommon for city hotels.

Dublin has benefited most from this turnaround, representing about a third of all hotel beds in the country, though Galway and Cork also recorded some improvement. One measure of Dublin's better circumstances is that some hotels are now enjoying 80-85% occupancy rates thanks in part to 'crowd-pulling' attractions like the CCD along with improved transport infrastructure.

Nevertheless, we are still suffering from an over-supply of bedrooms in Ireland. Back in 1995 there were about 25,000 beds, which rose steadily to 45,000 by 2005. Unfortunately it didn't stop there: by 2008 there were 60,000 beds, a peak that coincided with the start of the recession.

It wasn't just the number of beds that was the problem, despite growing revenues during the boom, costs rose even faster, harming profitability. The irony is now, thanks to more efficient and professional management, some hotels are now more profitable than they were before the recession!

However, in some cases that improvement in profitability has been bought at a price. A number of hotels have secured false economies in the form of cutbacks in training, excessive reductions in staffing levels, and under-investment in refurbishment. Such savings are not sustainable and are ultimately harmful to the business.

But we need to be realistic: a lot of hotels were built at the wrong time in the wrong places. The pain isn't gone, though the excess of rooms is declining by about 1,000 rooms a year, so the pace is slow and will take many years to unfold at this pace.

We are beginning to see the banks more engaged with hotel owners, for example in lending money for acquisitions and necessary refurbishment. Those hotels that are operating profitably with a positive cash flow are being considered by the banks when it comes to lending. The real financial problem for many hotels is no longer in the P&L; it's in the balance sheet. The key challenge – for banks as well as for the hotel sector – is to establish a realistic sense of the debt levels (and repayments) that individual hotels can sustain while continuing to run a business with long term potential. The bottom line is that you can't just take 100% of the cash flow surplus out in the form of debt repayments and expect to have a hotel that will survive, let alone thrive.

There is now an emerging appetite for investment in the sector, particularly evident in the prime sector in Dublin. A lot of this investment is international money, but Irish investors are also playing a part. The simple fact that hotels are selling, giving more confidence about valuations, will encourage banks to actively support buyers in the future.

CAEMAN WALL
HEAD OF RESEARCH
FÁILTE IRELAND

CAEMAN WALL

There is growing evidence that the tourism market has bottomed out in Ireland. Although British tourist numbers are still down, those for North America look like being the best ever this year. The Gathering has clearly played a role in this regard, and a lot of hotels around the country have worked with their local communities to create events that really appeal.

Nevertheless, the Irish hotel sector is still over-reliant on the domestic tourism market, with about two thirds of their business coming from domestic tourism on average. Dublin is closer to a fifty/fifty split between domestic and foreign tourists.

This over-reliance is holding back recovery in the hotel sector to a certain extent, simply because of the continuing fall in Irish consumer spending. The domestic market is an important source of volume for hotels, but it isn't as profitable as the foreign tourist market.

Hotels in the traditional tourism destinations around Ireland are benefiting from any improvements, but too many hotels are located in the wrong place, which simply means there is over-capacity in such locations. In reality, such hotels are in the domestic leisure market rather than the tourism business. Nevertheless, the quality of the Irish hotel stock is very good and we are 'over-stocked' with 5-star hotels by comparison to other European markets.

In the past, there was the mistaken belief that 'if it's good for hotels it's good for tourism'. Now we realise that 'what's good for tourists is good for tourism'. It's what's outside the hotel that attracts tourists, so hoteliers have to sell the experience of staying in the location. It's all about showing an interest in why the tourist is visiting your hotel, which usually isn't just about the hotel no matter how nice the pictures of the bedrooms and reception area!

A key challenge for hotels is to grow their foreign tourist business as that's where the growth will come from for the foreseeable future. This means a focus on online, but not necessarily on online travel agencies like Expedia.com and Lastminute.com. The online travel agents (OTAs) take a large slice (up to 40%) of the sale value. Too great an over-reliance on OTAs can diminish revenues. It may make more sense for hoteliers to sell directly online, if the savings from doing so free up money that can be spent on developing and promoting their own websites for bookings etc. But OTAs will continue to play a crucial role in generating demand from foreign tourists given the importance of the web for tourist information, planning and purchasing.

Traditionally, financial skills have not been strong in the hotel industry, simply because people skills matter more in terms of customer experiences. This has been a challenge for the banks that are much more focused on the financial performance of hotels these days rather than the value of the asset or the land it's sitting on. Failte Ireland and others have been focused on up-skilling the sector in relation to business planning and financial management. But there is still some way to go.

Failte Ireland is also interested in seeing initiatives such as Shared Ownership for hotels – something already working around the world, including Scotland. It effectively lets millions of tourists from around the world benefit from a 'time-share' type arrangement featuring hotel rooms, not just apartments and villas. There are about 30 hotels in Ireland that would benefit from Shared Ownership. Part of the hotel sector's recovery will require greater experimentation with new ways of funding, owning and running hotels.

BACK ON TRACK

THE WORST MAY BE OVER FOR THE IRISH HOTEL SECTOR AND WHILE THERE ARE SOME CHALLENGES TO OVERCOME, A DEGREE OF STABILITY HAS RETURNED TO THE MARKET AND THAT'S GOOD FOR THE TOURISM INDUSTRY AND THE WIDER ECONOMY, WRITES OWEN TRAVERS, AIB'S HOTEL SECTOR EXPERT.

There is no denying that the past few years have been very difficult for the Irish hotel industry. Like many other sectors, the economic downturn has created numerous challenges although in the case of the hotel industry, some of these challenges are quite unique.

A substantial debt overhang within the sector, the withdrawal of a number of overseas banks from the market and an oversupply of property in certain areas of the country has ensured that conditions in the market have been trying. Add to this mix a drop in international tourists visiting Ireland between 2007 and 2011, increased competition from other tourism markets within the EU as well as rising overhead costs in areas like wages, local authority rates and utilities and it is clear that conditions in the market remain challenging.

There are of course many opportunities for the Irish hotel sector and the medium term outlook is more bullish than it was three years ago. Revenue per available room (RevPAR) has continued to improve, particularly in Dublin, Cork and Galway. While demand outside these centres is weaker, RevPAR has increased marginally, as the more value-conscious domestic market appears to have stabilised and the number of tourists from overseas increases. As evidenced by the Amárach Research findings, over 50% of hoteliers have seen turnover increase during 2012 while 55% of them intend to improve or grow their business over the next three years.

AIB recognises the importance of the sector, not just to the bank but to the wider economy. Tourism has for many years been one of the country's most important industries and its impact is felt in every village, town and city in Ireland. It contributes in the order of €5.7 billion a year to the economy and employs around 180,000 people both directly and indirectly. A vibrant tourism industry, and indeed a vibrant hotel sector, will play an important role in Ireland's expected and long-awaited economic recovery.

> "A key focus for hotels at the moment is the management of revenue and margin growth."

AIB understands the Irish hotel sector. We have dedicated hotel sector Relationship Managers across our Corporate, Business Centre and Branch Banking operations which provide full, efficient and expert coverage of the sector. AIB is fortunate to have built up very strong relationships with many of the key stakeholders within the sector while we have also accumulated a considerable amount of expertise, knowledge and insights into the issues and opportunities that lie ahead. AIB has a significant market share and it is a sector that we understand well and its impact on the economy.

At a time when other banks have been withdrawing from the market, AIB has been actively involved in providing existing customers and indeed new ones with a wide range of financing solutions from working capital facilities (overdrafts, insurance premium financing, etc) to funding acquisitions, business expansion and CAPEX investment (term debt, leasing and asset financing). AIB has played a significant role by providing finance solutions to many leading hotel groups over the past eighteen months, some of which are existing AIB customers while others are former customers of overseas banks that have exited the market. Through our market leading internet based banking platform (AIB's internet Business Banking) we also offer our customers an efficient cost effective and secure cash flow management tool giving them greater control and certainty over their cash flow.

For the last 10 years, the reality was that business was so good for most hotels that the numbers spoke for themselves and information required by banks in support of an application was limited and finance functions did not have to be as strong as they are now. When the downturn kicked in, however, many hotels were quickly faced with the task of better margin management and business planning. AIB has also taken a knowledge-leadership position in the hotel sector. Through a series of road shows, which the bank organised in association with the Irish Hotels Federation, we have assisted hotels around the country to understand what a bank expects to see in important areas like financial management, budgeting and business forecasting when assessing a request for credit.

An overall improvement in financial management has played an important part in the recovery of room rates over the past two years. Unfortunately when the downturn struck, many hotels cut their rates just to keep customers coming through their doors and as a result margins were materially impacted or non-existent in certain cases. Now, many hotels

have a stronger grounding in margin management and are better equipped when it comes to forecasting and preparing business plans.

They also have a greater understanding of the importance cash-flow plays, particularly in relation to servicing any credit facilities they may have in place. One of the key reasons why there is a substantial debt-overhang in the market is that during the boom times, the amount a hotel could borrow was linked to the valuation of the underlying asset. For AIB the focus is not the value of the asset but rather the free cash-flow that it generates and the quality of the business plan that underpins that cash flow. Repayment capacity is paramount in all the bank's dealings with customers and we rigorously assess whether or not the business can repay the loan without hampering its growth potential and its future viability.

A key focus for hotels at the moment is the management of revenue and margin growth. AIB believes that investment in the sector is central to achieving this growth. Indeed it is clear from the Amárach Research findings that many hoteliers consider this as one of their top priorities with some 55% of those surveyed indicating that they intend to grow or improve their properties with another 84% of these saying that the investment will come from retained profits. This is testimony to the optimism, professionalism and determination that exists within the sector.

Unfortunately, there still remains an over-supply of hotels in certain counties outside of Dublin. Some of these hotels are relatively new and have been developed in the past by property developers, often with little knowledge of the industry. In many cases they also happen to be the best product in the area and this presents difficulties for some of AIB's existing customers who find themselves in a difficult position of competing against such properties. Where it can, AIB has been supportive of these customers and has provided finance for upgrades >>

LOOKING FORWARD

> For the sector, it's about competitiveness and the reduction in the VAT rate has helped it compete with other markets.

and refurbishments so that they can compete head-to-head with these hotels.

The exit of developers from the market has also meant that asset values are now more meaningful and stable. Recent market activity in the sector involving properties like The Clare Inn, the Fleet Street Hotel, The Morrison, The Marker and The Burlington Hotel have all helped set a realistic value base in the industry.

In addition, there is an appetite from overseas investors, many of whom believe that asset value declines – in the Dublin market in particular – have been overdone. This is likely to lead to further acquisition activity in the sector although demand for properties outside of Dublin is expected to be more select with cash-flow and repayment capacity a key consideration in any deals.

There are of course other issues at play within the sector. Any change to the VAT regime, for example, is likely to have a negative effect, particularly on those businesses where ground floor activities like food and beverages, account for a sizeable proportion of their overall turnover. Many of the key stakeholders within the industry feel that this "temporary" VAT rate of 9% should be maintained, at least until the country's economic recovery is firmly back on track. For the sector, it's about competitiveness and the reduction in the VAT rate has helped it compete with other markets. This is clear from the growth in the number of tourists coming to these shores and the perception in international markets that the Irish tourist product is a value for money proposition. The importance of this can't be overstated enough. More importantly, as far as the VAT rate is concerned any loss in revenue to the exchequer arising out of its reduction in VAT, has more than likely been offset by the gains the economy has made directly and indirectly by the increase in tourists. So it's a big issue for the industry.

In addition, the inclusion of the tourism-related enterprises, including hotels, within the Employment & Investment Incentive Scheme (EIIS) is a welcome development for the hotel sector (see page 25 for more information). In the recent Finance Bill, the Minister for Finance announced that the EIIS was being extended until 2020 and as part of this extension, hotels, guesthouses and self -catering accommodation will be allowed to qualify on a temporary basis where they meet the conditions of the incentive. The inclusion of tourism accommodation in the EIIS will be reviewed after a period of two years.

The rationale for its inclusion was that the debt overhang was leading to an underinvestment in the repair, maintenance and refurbishment of hotels and guesthouses. Equity funding from the EIIS willl hopefully provide a key piece of the missing liquidity for the sector, particularly outside the main centres. The hope is that groups of local investors, including friends and family will see it as an opportunity to invest in a local business that they see has potential or might not be understood by outside investors. We are outlining to prospective customers how much sustainable debt they can currently put on to a particular structure based on their repayment capacity and sometimes there is a gap between that and their expectations. So we take the view that it is a great addition to the options available when it comes to bridging the funding gap.

Another welcome development for the sector and which was also contained in the Finance Bill 2013 was the final confirmation that the Real Estate Investment Trust (REITs) regime announced in last December's Budget will allow hotels and other tourism accommodation be held as rental investment assets by these REITs. As outlined in the Finance Bill, REITs may therefore be attractive to holding structures where, for example, a hotel premises is owned as a rental investment asset by investors, and leased to a separate operating company that would engage in the taxable trade of hotel-keeping. This is likely to lead to further interest in the sector from investors and a reduction in the debt overhang as distressed properties emerge from insolvency.

Here at AIB, we firmly believe that the Irish hotel sector has a bright future, notwithstanding the immediate challenges it faces. The bank will continue to support this vital sector and its future growth potential with a range of innovative solutions and our team of sectoral experts. •

Owen Travers is Business Unit Head, AIB Corporate Banking and Specialist in the Hotel Sector.

A GRAND RELATIONSHIP

EFFECTIVE COMMUNICATION HAS PROVED VITAL TO THE GRAND HOTEL MALAHIDE, BOTH IN TERMS OF INFORMING POTENTIAL CUSTOMERS OF ITS OFFERINGS AND SHARING KNOWLEDGE WITH LONG-TERM BANKING PARTNER AIB.

The Grand Hotel was built in 1835 and officially reopened in 1955 following a major reconstruction and modernisation programme. In 1974 Matt Ryan became the new owner of the hotel and during the present ownership of the Ryan family it has expanded from having 12 staff to nearly 200. Development and improvement work continues to this day. In 1982 a large conference centre was built and in subsequent years 100 bedrooms, the Coast restaurant, a new reception area, Ryan's Bar and a top-class business meeting centre were added.

Matt Ryan says investment in bedroom stock is just one of the key areas where AIB has supported the business. "Over the last five years in particular the quality of bedrooms has become absolutely critical. Rooms must be refurbished regularly and the 'lifecycle' of a hotel room has shortened. AIB is a vital partner in this regard in terms of providing finance since they understand that we need this type of funding for refurbishment to maintain the volume of business we are doing. Business will fall and customers will go elsewhere without this continuous investment," he says.

All the business areas within the hotel (bars, conferencing facilities etc.) are also regularly reviewed at all stages from purchasing to sales to see where revenue is generated and how customers want to purchase the various services.

MATT RYAN

"Because domestic spending power is reduced, we have increased our focus on attracting conferencing business from outside Ireland," Matt adds. "As well as helping the local economy, such events give us a firm base of business going forward – conferences are typically booked about a year in advance."

When he explains that the average spend per international delegate is about €1,500, it is easy to see why business tourism is now recognised as a vital contributor to the Irish economy. "There is considerable unrealised potential in this sector and markets like Germany need to be 're-introduced' to Ireland."

Other aspects of the Grand Hotel Malahide's business that have been revamped include its menus, which have been updated to make eating out more affordable and accessible.

Matt has banked with AIB since he took over the hotel and describes it as a bank that listens to its customers. "Sometimes you have to invest in products in one area of the business that will generate revenue in other areas – for example, investing in our restaurants increases bedroom sales. AIB has a good understanding of the hotel industry in terms of costs, where business is generated and what you have to do to generate business."

Matt also points out that online banking has been very helpful in enabling the Grand Hotel Malahide to continually review its accounts and take advantage of better interest rates where available. All payments are made electronically, which reduces administrative costs such as postage and statement printing. "Our suppliers love this because they know they will be paid directly on a specific date and it enables end-of-month accounts to be compiled in an efficient manner."

Quarterly meetings with AIB enable Matt and his team to benchmark the hotel's performance against the industry, which gives him a picture of how the business is performing.

"Banks and businesses are partners in the process of reviving the economy. It is vital to be able to talk 'business language' to your banking partner. For example, our wage levels are high compared to other industries, but AIB understands that this is a feature of the service sector."

According to Matt, a true banking partner recognises the importance of understanding an individual business rather than an industry. "We have been in the hotel business for almost four decades and AIB knows that we don't take massive risks and that we follow through on our plans. We also understand their requirements in terms of information and vice versa - if they say 'no' there is always a good reason that is well-communicated. Determination to protect an industry is a valuable characteristic for a bank, as is a willingness to be fair to all customers in a particular sector."

With four hotels in Ireland and two in sunny Malaga, David Kelly, CEO of FBD Property & Leisure knows the value of a strong banking relationship

FBD Property & Leisure is owned by the publicly quoted FBD Group and AIB is sole banker to the company. The company's well-known hotels in Ireland include The Tower Hotel and Faithlegg House, both of which are in Waterford and the Castleknock Hotel and Temple Bar Hotel in Dublin. In Spain, meanwhile, it owns the popular Sunset Beach Club in Malaga as well as the upscale La Cala Golf Resort, outside Marbella.

In June 2012, AIB worked with the hotel operator to refinance its bank debt and has worked very closely and constructively with the company ever since, according to David Kelly.

"By understanding our business very well and by adopting an open and commercial approach, we found that AIB was able to engage with us very quickly and constructively and agree with a re-financing of our facilities to match our business needs into the future. The bank's knowledge of our business and the open and trusting relationship that we have with them was the cornerstone on which our re-financing was completed," says David.

AIB provided the company with a 3 year refinancing of its existing banking facilities including term finance, working capital and leasing facilities amounting to €45.9m

Michael Holland, the owner of the popular Fitzwilliam Hotel Dublin agrees with David Kelly. "The professionalism of AIB's Hotel sector team enabled us to complete a complex refinancing in a very efficient manner. Over a 6 month period from initial engagement to drawdown of funds we found that AIB adopted a "can do" attitude while their knowledge and understanding of the industry was very evident to all involved."

AIB provided the hotel with €21m, 3 year term debt facility in addition to working capital and leasing facilities and the bank is also the sole lender to the hotel.

In addition to the FBD Property and Fitzwilliam Hotel deals, some of the other recent financing initiatives in which AIB has been involved with over the last 12 months include the following:

Doyle Hotels (Holdings) Ltd: €220m, 4 year refinance of term debt facilities in addition to working capital and FX facilities. AIB is also the sole lender to the company.

Dromoland Castle: Acquisition and refurbishment financing.

FROM STRENGTH TO STRENGTH

The Coyle family, owners of Renvyle House, one of the country's oldest and top hotels, can trace their banking relationship back to 1918 when they first opened an account with old Munster and Leinster Bank, which later became part of AIB in 1966.

Located on 200 acres on the shores of the Atlantic Ocean in Connemara, the historic Renvyle House is celebrating its 130th birthday in 2013. It is also 60 years since Dr Donny Coyle bought the property back in 1953 and the Coyle family have been successfully running the business ever since.

One thing that hasn't changed down through the years is its banking partner. In an era where relationships between customers and banks have come under severe pressure, the loyalty of the family behind Renvyle House Hotel is truly astonishing.

Current owner John Coyle recalls that his father opened an account with the Munster and Leinster Bank in 1918 (which became AIB in 1966 after a merger with the Provincial Bank of Ireland and the Royal Bank of Ireland) and that they have been banking there ever since.

Given the sheer length of this relationship, his views on the most important qualities for a banking partner carry more weight than most.

"The bank needs to understand the business, especially in tough economic times. There needs to be someone in the branch who gets to know you personally and is prepared to take the time to have a cup of coffee and a chat. Many of these relationships were lost during the boom years, but AIB has been working hard to re-establish the connection between the branch manager and local businesses. It is absolutely vital to have local managers who can make decisions and fight your corner, as well as being willing to challenge you if they think you are making a wrong call."

JOHN COYLE

The state of the economy and oversupply in the hotel sector mean the current focus is on maintaining business, John explains. "AIB has assisted us in this process by continuing to provide access to seasonal working capital, which is especially vital in light of recent uncertainty in the banking sector. We have also secured some long term finance for investment in our accommodation."

This investment has enabled Renvyle House Hotel to win numerous industry accolades, most recently the Gold Award at this year's Irish Accommodation Services Institute (IASI) awards.

AIB has also enabled Renvyle House Hotel to streamline its banking processes, says John. "We have started paying staff wages and salaries electronically. This has been very beneficial for our employees because we are located in a beautiful (but remote) part of Connemara and the nearest bank is 30-40 minutes drive away. As well as being useful for staff, electronic payments have saved us money and we will be looking to pay suppliers the same way in the near future".

KEY MARKET TRENDS

ANNE WALSH, DIRECTOR, TOURISM AND LEISURE AT CROWE HORWATH SHARES SOME INSIGHTS INTO SOME OF THE MORE RECENT TRENDS WITHIN THE IRISH HOTEL SECTOR.

1. 2012 KEY METRICS

The following key metrics are estimates from Crowe Horwath to year end 2012.

Ireland recorded strong RevPAR growth in 2012, driven primarily by an increase in average daily rate. However, as seen in the table below, the market performance continues to be location specific, with Dublin and several tourism hot spots performing strongly and other parts of the country experiencing a decline.

Dublin Hotel Market – January to December 2011 / 2012

	2011	2012 (E)
Occupancy	71%	76%
Average Room Rate	€81	€83
RevPAR	€57	€63

Galway Hotel Market – January to December 2011 / 2012

	2011	2012 (E)
Occupancy	62%	68%
Average Room Rate	€76	€73
RevPAR	€47	€50

Cork Hotel Market – January to December 2011 / 2012

	2011	2012 (E)
Occupancy	72%	73%
Average Room Rate	€66	€69
RevPAR	€48	€50

Limerick Hotel Market – January to December 2011 / 2012

	2011	2012 (E)
Occupancy	56%	58%
Average Room Rate	€54	€53
RevPAR	€30	€31

Rural properties continue to face challenges with an over-reliance on the price-sensitive domestic market.

RevPAR Future Trends

Dublin	↑
Cork	↑
Galway	↑
Limerick	↓
Regional	↓

2. 2013 Q1 KEY METRICS

The following key metrics are sourced from trending (www.trending.ie). With the exception of Limerick, all cities have experienced a stronger Q1 versus previous year (2012) Q1.

Dublin Hotel Market – January to March 2012 / 2013

	2012	2013
Occupancy	62.7%	63.6%
Average Room Rate	€71.03	€71.06
RevPAR	€44.54	€45.18

Source: Trending

Galway Hotel Market – January to March 2012 / 2013

	2012	2013
Occupancy	53.1%	53.8%
Average Room Rate	€58.65	€62.98
RevPAR	€31.12	€33.88

Source: Trending

Cork Hotel Market – January to March 2012 / 2013

	2012	2013
Occupancy	57.6%	62.1%
Average Room Rate	€65.01	€65.94
RevPAR	€37.46	€40.98

Source: Trending

Limerick Hotel Market – January to March 2012 / 2013

	2012	2013
Occupancy	50.2%	46.6%
Average Room Rate	€51.50	€52.24
RevPAR	€25.83	€24.34

Source: Trending

3. OCCUPANCY BY NATIONALITY / AGE / TYPE OF STAY

Statistics on age are not collated. Crowe Horwath reported on the composition of the market for the financial year 2011 with the table below illustrating the results. In our experience the domestic market remains the dominant market for Irish hotels in 2012, particularly those located in provincial towns / rural locations. A number of rural hotels would report in excess of 85% of bednights being generated by the domestic market. This market continues to be extremely price sensitive. The international market demand needs to continue to improve for hotels to yield at higher rates and drive occupancy.

Market Composition 2011	
Business Traveller	23.9%
Domestic Tourist	50.9%
Foreign Tourist	9.6%
Tour Group	9.6%
Meeting Participants	4.8%
Other	1.2%
Total	100%

Source: Crowe Horwath Ireland and Northern Ireland Hotel Industry Survey

The above information for 2012 will be published in the forthcoming Ireland and Northern Ireland Hotel Industry Survey (Crowe Horwath) due for release in June 2013.

4. IRELAND 2012 VERSUS 2011

The table below illustrates the results of the Republic of Ireland as reported by STR Global.

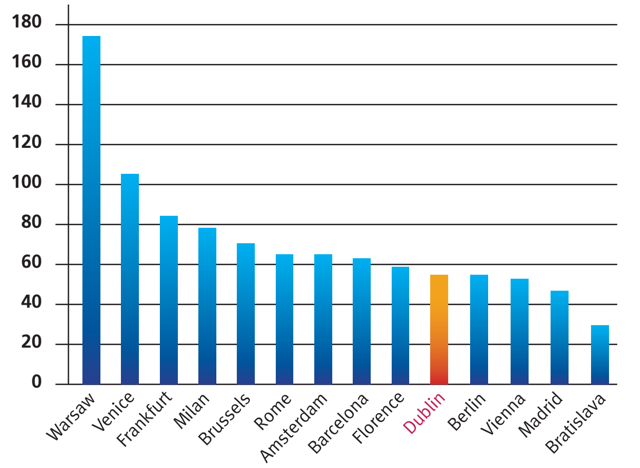
Ireland Hotel Market – January to December 2011 / 2012

	2011	2012	Variance
Occupancy	62.2%	65.7%	5.6%
Average Room Rate	€78.28	€85.23	8.9%
RevPAR	€48.72	€56.03	15.0%

Source: STR Global

5. DUBLIN VERSUS EUROPEAN DESTINATIONS

The table below highlights Dublin's position in terms of RevPAR versus other European destinations for Q1 2013. Dublin experienced a 12% increase on RevPAR in the quarter versus previous year.

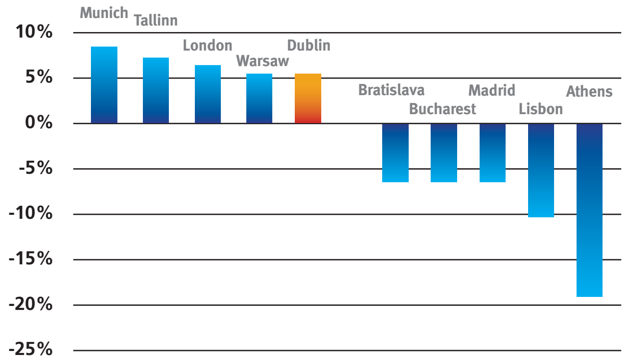


Overview of European Market Performance RevPAR -January to March 2013

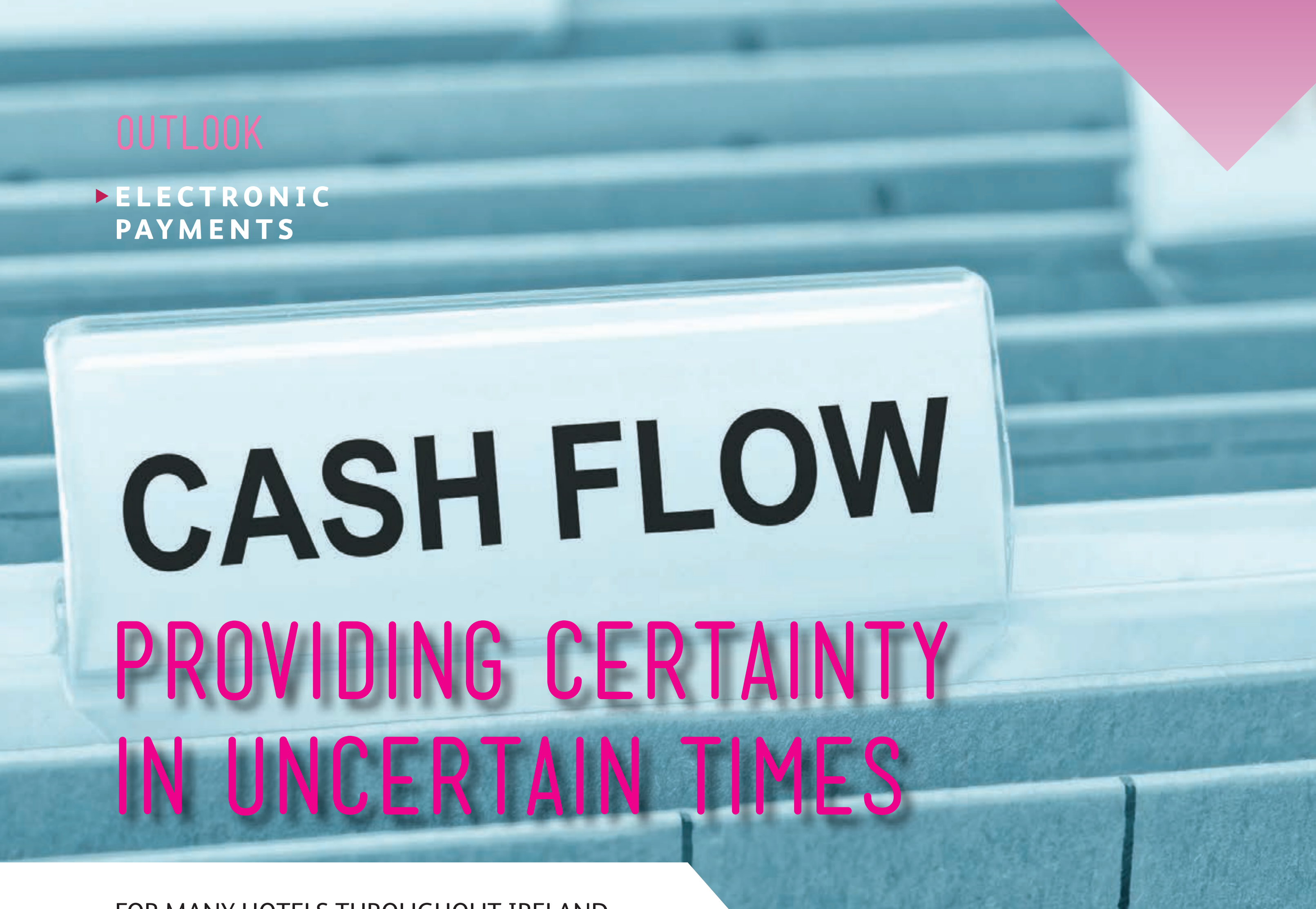
6. EUROPEAN VALUATION INDEX

The 2013 European Hotel Valuation Index has been released by HVS indicating Dublin hotel values have seen an annual increase of 5.5%. Dublin is currently ranked fifth in the list of hotel value percentage growth. The graph below shows the European cities which experienced the greatest growth in value, along with those that have seen the biggest decline in value per room.

Top & Bottom Five – % Change in Hotel Value per Room 2012 (€)



Source: HVS Dublin's value growth is based on strong RevPAR performance achieved in 2012 along with increased interest from investors.



PROVIDING CERTAINTY IN UNCERTAIN TIMES

FOR MANY HOTELS THROUGHOUT IRELAND, ONLINE BANKING HAS LED TO GREATER EFFICIENCIES AND CERTAINTY.

In an environment where rising costs are the biggest concern for hoteliers, all hotels are focusing on increasing profits from services provided and looking at where they can cut costs from the bottom line.

Effective cash flow management is a core finance function for any hotel and knowing when funds are due in or out of your working accounts is important. Hotels receive all types of payments on a daily basis and managing the processing of these is critical to maintaining cashflow. Hotels can improve the management of payments and cashflow through the use of electronic payments to suppliers in Ireland and abroad as well as staff.

Electronic payment systems can help you to maximise efficiency in a cost effective manner.

SAVE TIME & ADMINISTRATION COSTS
Preparing, checking and collating cheques with the relevant remittance advice is a time consuming task. Using your existing systems the creation and authorisation of a payment file is a simple and inexpensive process.

IMPROVED CASH FLOW MANAGEMENT
Make your money work for you up to the last minute by knowing exactly when funds will leave your account. Using Internet Banking will also assist the management and tracking of all transactions across your account in real time.

DIRECT COST SAVINGS
The use of cheques is eliminated, removing the cost of cheque stationery, stamp duty (50c per cheque at present) and the higher cheque transaction costs.

CUT DOWN ON RECONCILIATION
The file creates a single debit from your account on a specified date, eliminating the need to track individual payments.

BETTER PAYMENT TERMS
Negotiate more favourable payment terms by paying more efficiently.

SECURITY OF OUR ELECTRONIC PLATFORMS
Internet Banking employs the latest technologies to protect payment files uploaded to the bank from third party interference, helping to provide peace of mind in the disbursement process.

AIB recognises that hotels have different payment needs and has a nationwide team of specialists who meet with customers to understand their specific payment requirements and recommend the most suitable option for them. The team works closely with the hotel in understanding the hotel's needs and, helping to prepare the relevant documentation to set up electronic payments. They will also test the system on the live date to support the customer migrating their paper transactions to more efficient means.

AIB offers the following electronic payment services through its Internet Business Banking (iBB) platform.

AIB SEPA Credit Transfer: This is a file upload facility that can be used to make euro payments to suppliers and staff in Ireland and the EU. This avoids the need to write cheques or manually key payments into iBB.

AIB Multi Currency: This is a file upload service that caters for euro and any other currencies, going anywhere in the world.

Both options provide efficient, secure and cost effective methods of paying suppliers and employees directly into their bank accounts. Euro payments going to Ireland and the EU are processed 'next day value' i.e. a file uploaded before 3pm to AIB will be processed into the beneficiaries accounts the following morning. •

FUNDING

BRIDGING THE EQUITY GAP

FOR THE FIRST TIME SINCE IT WAS ENACTED IN 2011, THE EMPLOYMENT AND INVESTMENT INCENTIVE SCHEME (EIIS) NOW INCLUDES TOURISM-RELATED ENTERPRISES INCLUDING HOTELS, GUESTHOUSES AND SELF-CATERING ACCOMMODATION.

The introduction of new equity into the hotel sector was one of the main recommendations of the IHF. In a report commissioned by the IHF last year, economist Alan Ahearne made a number of proposals with regard to bringing new equity investment into the sector. These proposals were designed to address the perceived finance market failure and the sector's need to raise the necessary equity capital that is required to restructure a portion of the overhanging debt and restore ownership of the industry to those who have a long-term interest in it.

Following submissions made by the Irish Hotels Federation (IHF), the Finance Act 2013 has extended the Employment and Investment Incentive Scheme (EIIS) to include the operation of registered hotels, guest houses and self-catering accommodation. For the hotel sector, this is a welcome development as it will allow hoteliers introduce additional equity from investors while at the same time providing the investors with tax relief. Under the EIIS, a qualifying company can raise up to €10 million subject to a maximum of €2.5 million in any one 12 month period.

The EIIS, which was introduced in November 2011 as a replacement for the Business Expansion Scheme (BES), has also been extended until 2020 under the provisions of the Finance Act 2013. The inclusion of tourism accommodation is on a "temporary basis," and will be reviewed after a two year period.

The scheme gives income tax relief to qualifying individuals who subscribe for eligible shares in a qualifying company for the purpose of carrying on relevant trading activities once the money raised contributes to the creation or maintenance of employment.

QUALIFYING INDIVIDUAL

Qualifying individuals can invest anything from €250 up to a maximum of €150,000 in any tax year. In the case of a top rate taxpayer, they can obtain tax relief of 30% in the year of investment and 11% four years later provided there is an increase in employment in the qualifying company.

An individual director, employee or other person who has an interest of more than 30% in the business cannot obtain relief unless the aggregate amount that is raised in terms of share and loan capital in the specified period is less than €500,000. However, directors and employees are able to qualify for relief provided that all their dealings with the qualifying company on normal commercial terms. In addition, there should be no recovery of capital in any form by the connected parties. Investors must hold the shares for three years to prevent a claw back of the relief obtained.

For the purposes of the EIIS, eligible shares are defined as new ordinary shares in the qualifying company. These shares should not carry any present or future preferential rights to dividends or redemption. In the event of a winding-up of the qualifying company, the shares do not carry rights on the assets of the business. An individual may invest directly in a qualifying company or through a fund approved by the Revenue Commissioners.

QUALIFYING COMPANIES

To qualify for the EIIS, hotels must submit a three year business plan, including a marketing plan to Failte Ireland which reserves the right to approve or reject the proposals.

In order to qualify, a company must be:

A micro enterprise (one which employs fewer than 10 people and whose annual turnover and/or annual balance sheet total does not exceed €2 million)

A small enterprise (one which employs fewer than 50 people and whose annual turnover and/or annual balance sheet total does not exceed €10 million)

A medium-sized enterprise (one which employs fewer than 250 employees and whose turnover does not exceed €50 million and/or annual balance sheet total does not exceed €43 million).

In the case of the Irish hotel sector, the EIIS can be particularly attractive to small or family-owned businesses, particularly when the owner or family members will be the individuals providing finance to the company. As previously stated, in the case of companies with a share capital plus loan capital of less than €500,000, eligible shares can be issued to the owner or to family members of the company with tax relief available to those individuals. Prior to the inclusion of the accommodation sector in the EIIS, family members who invested their own money in hotels did not receive tax relief.

(Source: Department of Finance, Revenue Commissioners, Fáilte Ireland.)

OUTLOOK

TRAVEL STATISTICS

	Overseas Trips to Ireland ('000)		Trips Overseas by Irish Residents ('000)	
Reason for Journey	2011	2012	2011	2012
Business	1,098	1,182	698	794
Visting Friends/Relatives	1,973	1,818	1,450	1,508
Holiday/Leisure	2,728	2,832	3,922	3,901
Other	705	685	222	123
Total	**6,505**	**6,517**	**6,293**	**6,326**

Overseas Trips to Ireland By Mode ('000)

	2011	2012
Air	5,675	5,746
Sea	830	771

Trips by Type ('000)

	2011	2012
Same Day Trips	482	478
Overnight Trips	6,023	6,039

Trips by Country of Residence ('000)

	2011	2012
Great Britain	2,878	2,774
France	401	396
Germany	423	448
Italy	220	252
Other Europe	1,239	1,251
USA & Canada	987	1,017
Australia & New Zealand	141	151
All Other Areas	216	223

Estimated Earnings & Expenditure (€m)

	2011	2012
Overseas Tourists Spend in Ireland	3,525	3,683
Irish Tourist Spend Overseas	4,762	4,487

SOURCE: CSO Figures

(Source: Central Statistics Office)

OUTLOOK

Outlook is a series of AIB reports, that over the coming months, will examine and analyse the key issues affecting particular sectors within the Irish economy.

To download the reports and view videos with industry experts visit **www.aib.ie/business**

Our next report (Issue 3) will focus on the Dairy Sector.