

# Enhancing the Viability of Your Hotel Amidst Inflationary Cost Pressures and Climate Change

June 2024

Audit / Tax / Advisory

[www.crowe.ie](http://www.crowe.ie)

# Ireland Annual Hotel Industry Survey

**Authoritative guide** to performance of the Irish hotel sector.



**28 years of data**

**Region and size** categories presented in report using uniform system of accounts



# Medium Term Outlook

Audit / Tax / Advisory

# Medium Term Outlook

---



**REVENUE  
GROWTH  
SLOWING**



**OPERATING  
EXPENSES  
OUTPACING REVENUE**



**PROFIT  
SOFTENING**



**13.5% VAT  
RATE IMPACT**



**INFLATION ON  
PAYROLL AND  
OTHER COSTS**



**MARGINS AND  
VALUATIONS  
IMPACTED**

# Profit Margin Illustration

	2023	2024*	2026*
Revenue	€1,000	€1,020	€1,061
Costs	(€800)	(€824)	(€874)
EBITDAR Profit	€200	€196	€187
EBITDAR Margin	20%	19%	18%

*\*based on revenue increasing 2% per annum and cost increasing 3% over the same period.*

Focus should be on protecting margin and avoid profits being eroded by the cost base inflationary pressures.

# Illustration of VAT Hike, Slowing Revenue & Cost Inflation

	2022	2023	2024	2025	2026
Revenue	€76,477	€76,477	€80,129	€78,900	€80,478
Revenue Growth %		6.0%	2.0%	2.0%	2.0%
Revenue Growth		€4,589	€1,603	€1,578	€1,610
VAT Impact		€936	€2,832		
<b>Revenue per Available Room</b>	€76,477	€80,129	€78,900	€80,478	€82,087
Costs	€62,066	€62,066	€64,238	€66,165	€68,150
Cost Growth %		3.5%	3.0%	3.0%	3.0%
Cost Increase		€2,172	€1,927	€1,985	€2,045
<b>Cost per Available Room</b>	€62,066	€64,238	€66,165	€68,150	€70,195
<b>EBITDAR Profit</b>	€14,411	€15,891	€12,734	€12,327	€11,893
EBITDAR Margin	19%	20%	16%	15%	14%

Hotels will seek to increase pricing, but is this achievable?

*\*figures shown on a per available room basis  
2022 figures based on Crowe Ireland Annual Hotel Industry Survey*

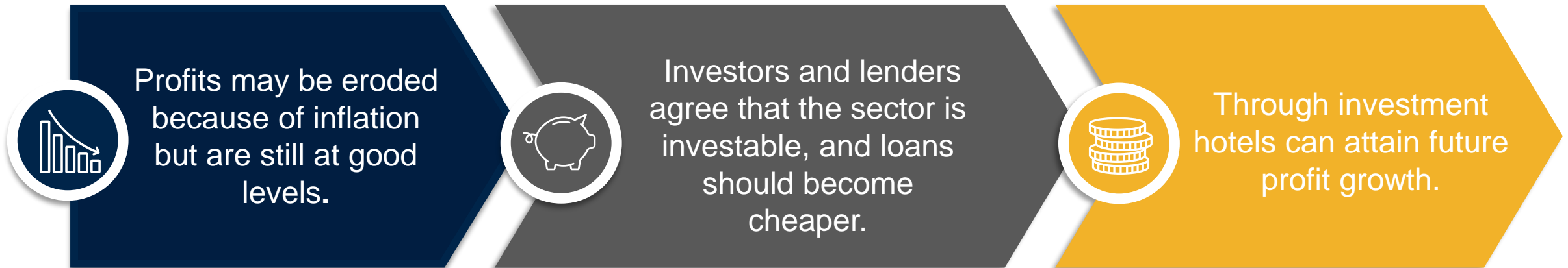


# Looking Ahead for the Hotel Industry

Audit / Tax / Advisory

# Investment is Needed to Sustain Profit Growth

Overall, the hotel sector is in a good place.



Determining the appropriate Business Strategy for your hotel is key to sustained profit growth.



# What Actions Can Increase Revenues and Reduce Costs

## Future Supply Suggests Market Opportunities

What impact could the Short-Term Tourism Letting Register have on supply?

When might International Protection Applicant housing move away from hotel accommodation?

Are construction costs a barrier to new supply?

## Invest Now to Save Later

For all: ESG Transition Plan with energy planning to obtain green premiums.

For some: Increase accommodation sales for scale benefits.

# Existing Supply

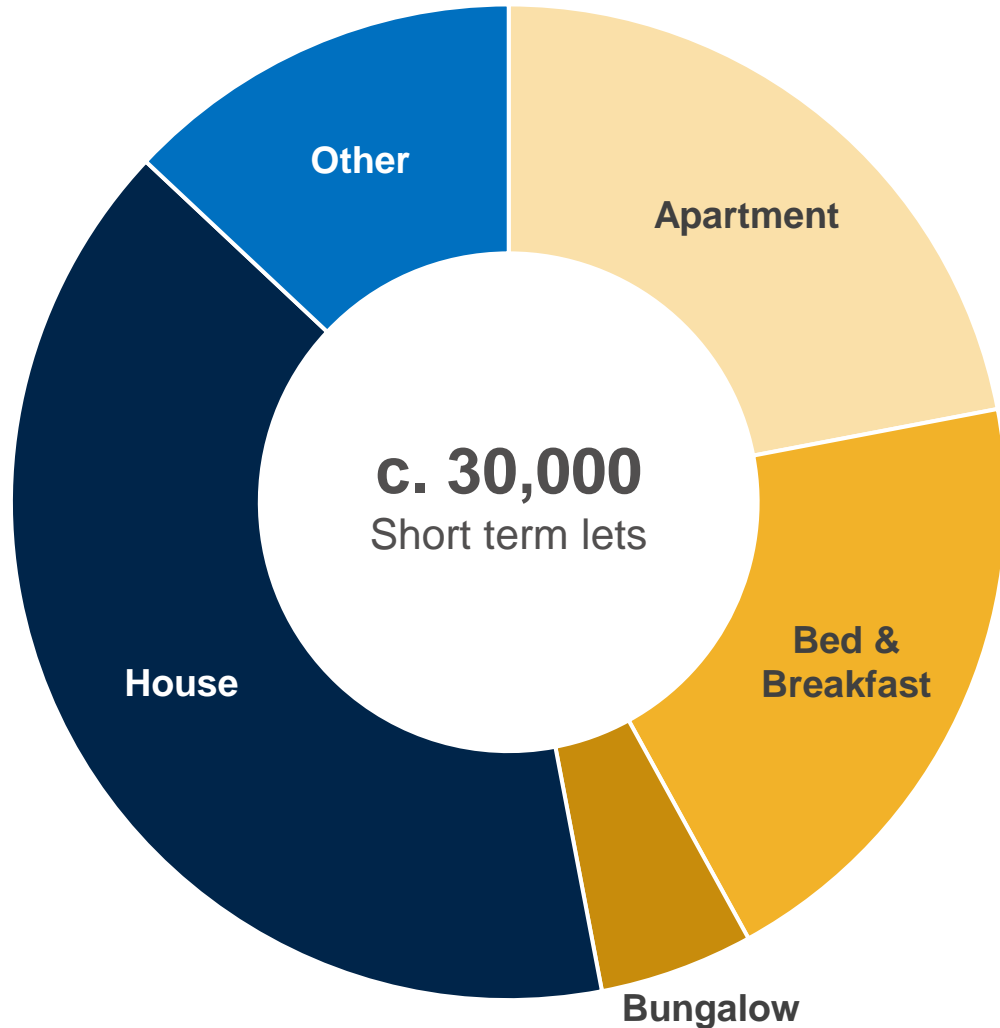
Hotels/ Rooms by Location	2019	2023
<b>Hotels</b>		
Dublin	153	159
Regional Ireland	677	674
<b>Total</b>	<b>830</b>	<b>833</b>

2019	2023	% Chg. Rooms
<b>Rooms</b>		
20,555	23,400	+14%
40,198	40,603	+1%
<b>60,753</b>	<b>64,003</b>	<b>+5%</b>

Source: Failte Ireland Hotel Register

- Supply growth is very low across Regional Ireland
- Pipeline for Dublin suggests new stock will be quickly absorbed with marginal impact on occupancy levels
- 2023 Occupancy levels are at all-time peak for Regional Ireland and close to peak for Dublin

# Short Term Tourism Letting Register (Supply Estimate)



**c. 132,000**  
Guest capacity



**c. 20,000**  
Full properties only  
(target of legislation)

# STTLR – Requirements

## Property Owners Requirements

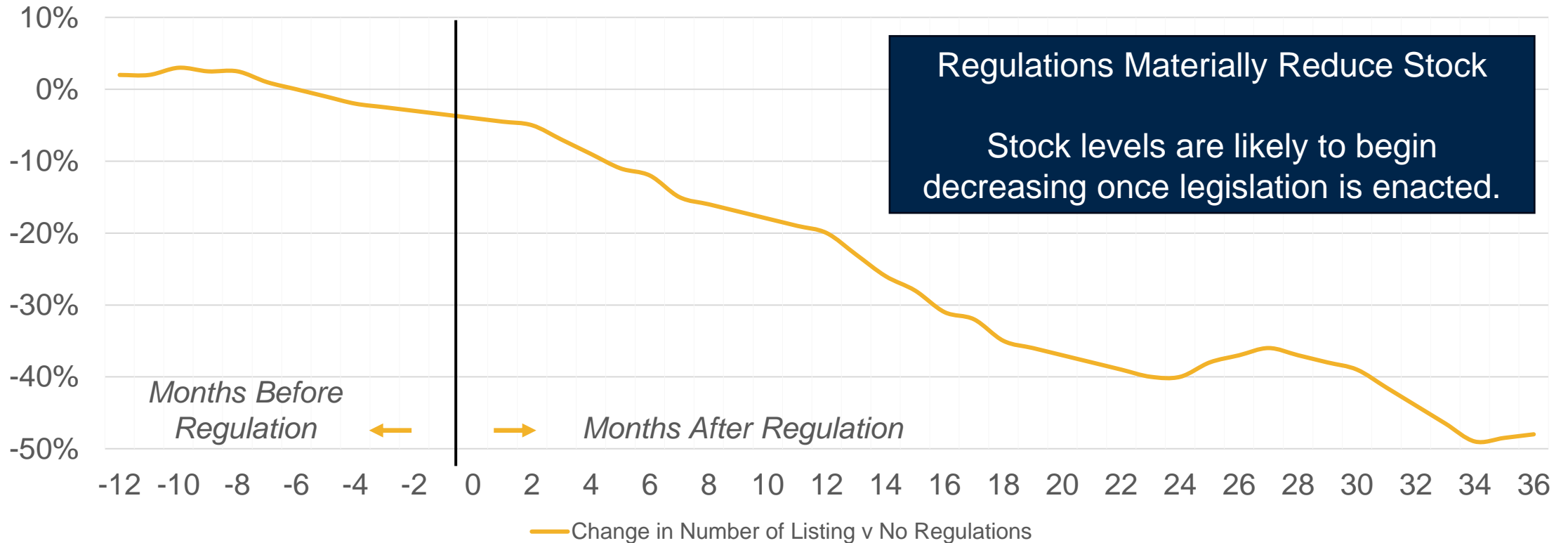
- Register online
- Provide accurate information
- Display valid STTLR number on listings and advertisements
- Pay fee
- Meet relevant, existing statutory requirements e.g., Planning, fire etc.

## Platforms Requirements

- Ensure valid STTLR number displayed
- Make a field available for that STTLR number when property is being listed
- Annual content moderation reports
- Regular reporting on STTLR properties
- Remove any non-compliant properties

# STTLR – Illustrative Example of Impact

**Short Term Lets Apartments Listing in 16 European Cities\***  
(Before and After Adoption of Short Term Rental Regulation vs No Regulation)



Source: *Challenges and effects of short-term rentals regulation: Assessment of European cities* Gianluca Bei & Filippo Celata 5 July 2023.

\*Amsterdam, Athens, Barcelona, Berlin, Brussels, Copenhagen, Edinburgh, Florence, Lisbon, London, Madrid, Paris, Porto, Rome, Venice and Vienna

# STTLR – What is the Potential Impact?

---



**A 50% reduction in Short Term Lets**

*implies*

**10,000 less Units**

*or*

**40,000 less Guest Capacity**

# Government Contracted Bed Stock (as of Dec 2023)

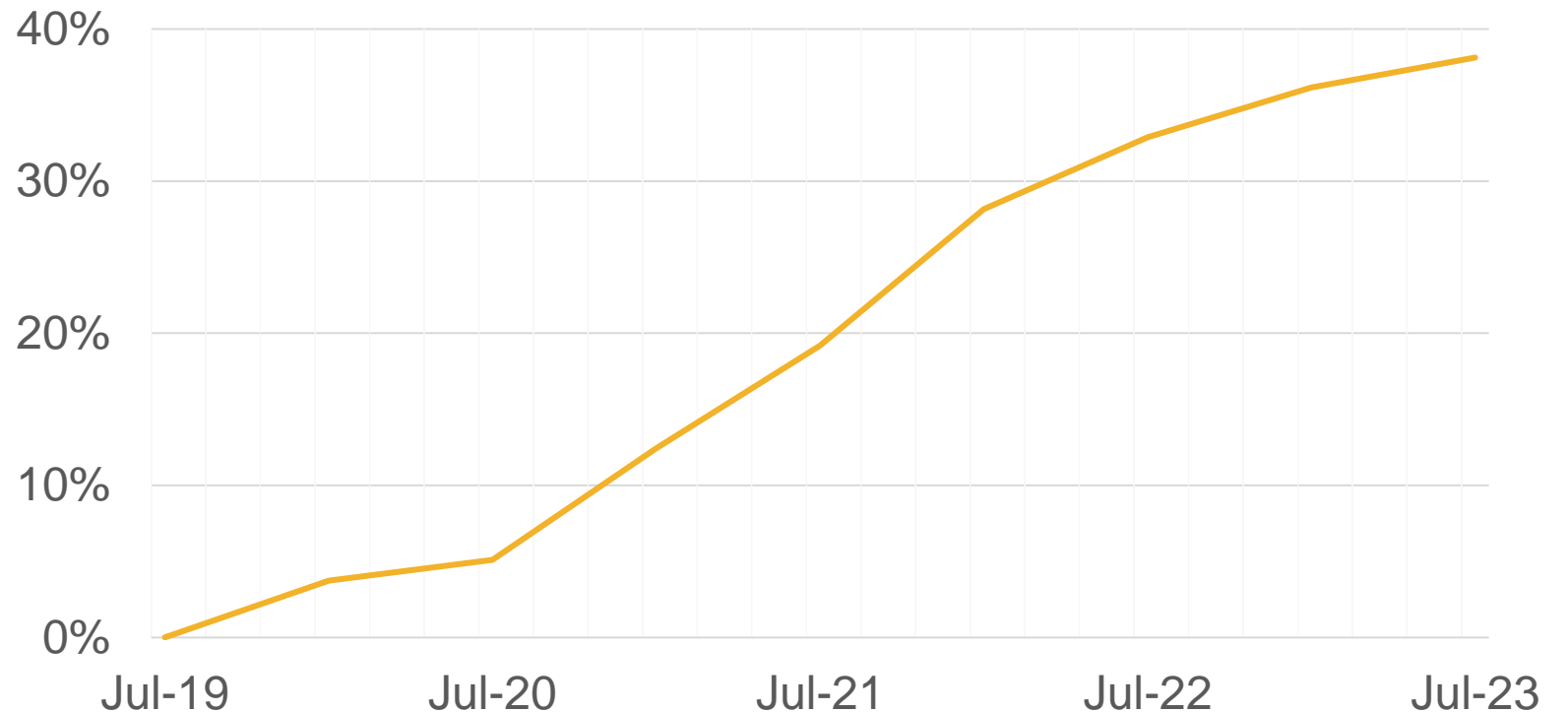
---

- 12% of registered tourism product contracted for IPAS use.
- Potential 7,500 hotel rooms in IPAS (International Protection Accommodation Services) use.
- The expectation is these numbers will be reduced over the next 24 months.
- For most properties, IPAS use greatly exceeds return versus hotel use.

# Construction Costs

- Construction prices are now **38%** more expensive than 2019.
- Hotels built in 2023 have construction costs ranging on average from **€138k - €227k** a room.

## Commercial Construction Tender Prices (% change since July 2019)



Source: <https://mitchellmcdermott.com/wp-content/uploads/2024/01/HOTEL-InfoCard-2024.pdf>



# The Risk of Not Investing in Your ESG Plan

On ESG Journey		No Investment
Profit & Loss	+ 3 years	+ 3 years
Rooms	75	75
Occupancy	73%	70%
Average Room Rate	€140	€135
RevPAR	€102	€95
<b>Room Revenue</b>	<b>€2,798k</b>	<b>€2,587k</b>
Other Revenue	€2,798k	€2,693k
<b>Total Revenue</b>	<b>€5,595k</b>	<b>€5,279k</b>
Payroll & Related Expenses	€1,998k	€1,980k
Utility Costs	€290k	€370k
Property Operations & Maintenance	€195k	€211k
Fixed Charges (Including Insurance)	€305k	€317k
<b>EBITDAR</b>	<b>€1,343k</b>	<b>€1,056k</b>
EBITDAR %	24%	20%

Increase in RevPAR as guests willing to pay premium.

More efficient Payroll as a result of investment in employee retention and governance practices to monitor flexing of part time staff.

Lower utility costs due to upgraded systems and ongoing monitoring.

Reduced maintenance from newer equipment.

Lower insurance as incentive for working with ESG focused hotel and lowered risk profile.

Investing to achieve green premiums could be very profit enhancing.

# The Risk of Not Investing in Your ESG Plan

	On ESG Journey	No Investment
EBITDAR	€1,343k	€1,056k
Valuation Multiple		
10x	€13,429k	€10,559k
10.5x	€14,101k	
11x	€14,772k	
Loan to Value (LTV)		
Existing Debt	€4,000k	€4,000k
Cost of Investment	€1,000k	-
Grant	(€300k)	-
Residual Debt	€4,700k	€4,000k
Loan to Value Ratio		
LTV (10x)	35%	38%
LTV (10.5x)	33%	-
LTV (11x)	32%	-

- Hotels with better ESG credentials are expected to attract higher multiples for valuation purposes, creating value for the owner.
- Consequent reduction in loan to value enables owner to negotiate lower borrowing costs.
- Better ESG credentials allow owner to negotiate cheaper interest costs for obtaining sustainability targets.

# Gaining Efficiency Through Adding Rooms

<b>Hotel – Extension – Adding 15 Rooms to a 75 Room Hotel</b>		
Occupancy	72%	72%
ADR	€140	€135
RevPAR	€101	€97
<b>Revenue</b>		
Rooms	€3,311k	€2,661k
Food, Beverage & Other	€2,365k	€1,971k
<b>Total Revenue</b>	<b>€5,676k</b>	<b>€4,632k</b>
<b>EBITDAR</b>		
EBITDAR	€1,306k	€926k
EBITDAR (%)	23%	20%
<b>Incremental EBITDAR</b>	<b>€379k</b>	
<b>Incremental Value (11x)</b>	<b>€4,171k</b>	

- Improve your ESG credentials e.g., greater intensification of sleeper per area.
- At a 20% ROI, can the 15 rooms be added for €1.9m?
- Economies of scale achieved.

# Take Ownership of Your Business Plan

---

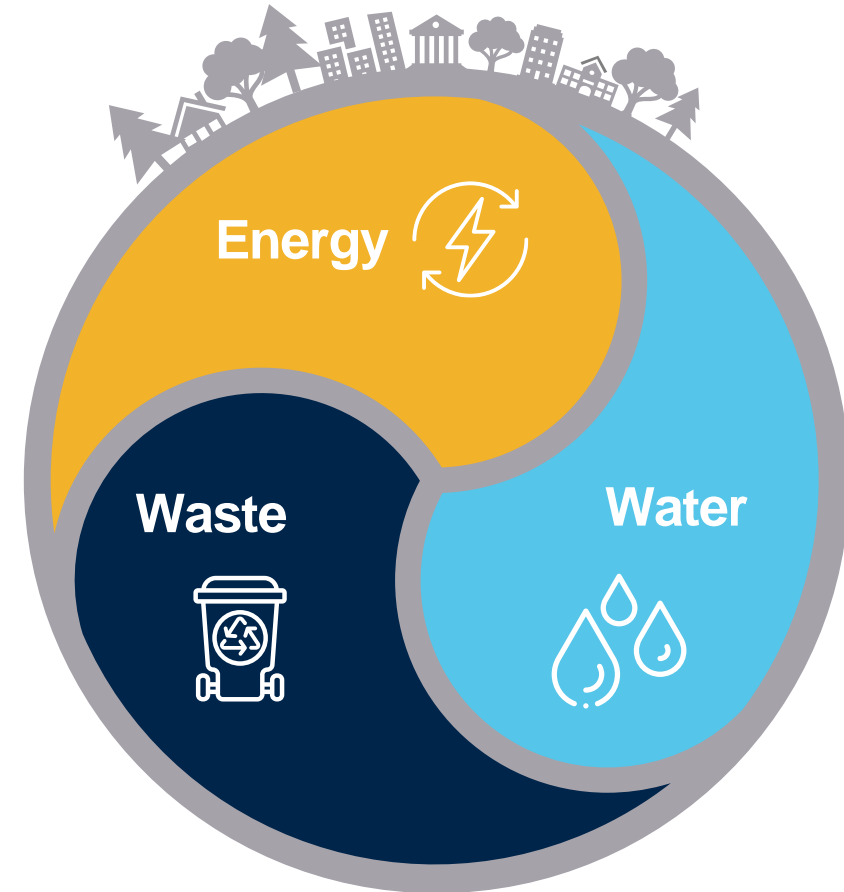


**How do you best prepare yourself as a hotelier for the next 3-5 years?**

# Step 1: Establish Your Baseline KPIs

---

Can be completed internally by the hotel accountant or with assistance of external accountant.



# Step 1: Cost Benchmarking and Measurement Tools

**USALI**

**The New Schedule 9**

	Period Of					
	Current Period		Prior Year		Year-To-Date	
	Actual	Forecast/Budget	Actual	Forecast/Budget	Actual	Forecast/Budget
	\$	%	\$	%	\$	%
<b>Energy, Water &amp; Waste</b>						
Energy						
Electricity						
Fuels, Gases & District Energy						
Renewable Energy						
Vehicle Fuels						
Total Energy Expense						
Water and Sewer						
Municipal Water						
Other Water						
Sewer						
Total Water & Sewer Expense						
Waste						
Landfill or Incinerated						
Recycled Waste						
Composted Waste						
Other Diverted						
Total Waste Expense						

1. Cost Benchmarks
2. Consumption Benchmarks
3. Projected Savings from Energy Reporting

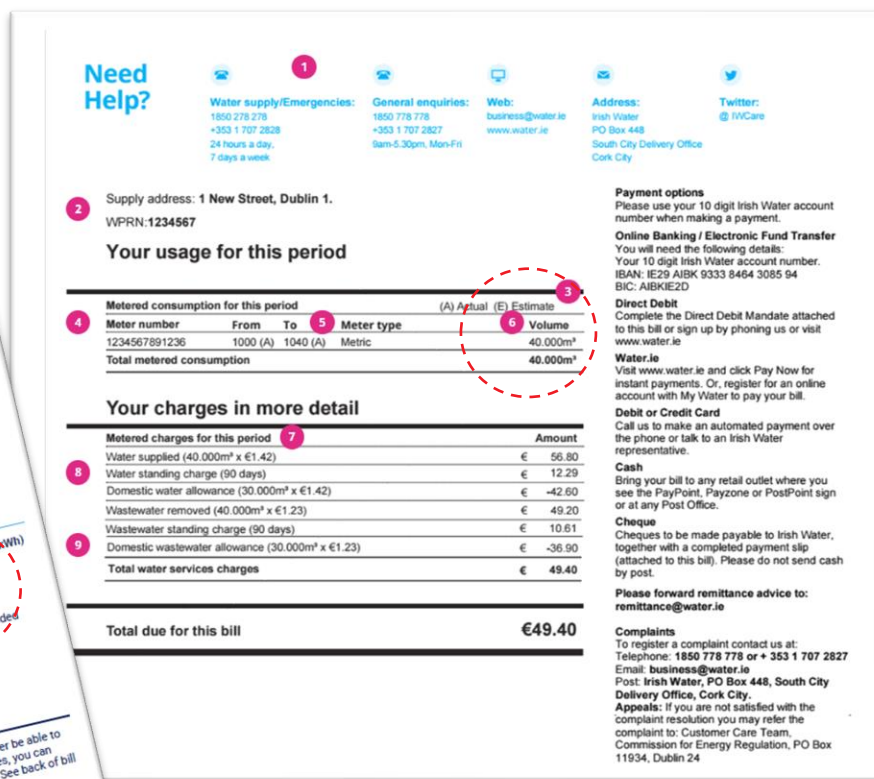
**USALI**

## Cost & Consumption Metrics

- Cost Metrics
  1. Energy Cost per kWh
  2. Water Cost per gal or m<sup>3</sup>
  3. Waste Cost per lb or kg
- Consumption Metrics
  4. Energy (kWh) used per square feet/meter ("Energy PSF" or "Energy PSM")
  5. Water (gal or m<sup>3</sup>) consumed per occupied room night ("Water POR")
  6. Waste (lb or kg) per occupied room night ("Waste lb POR" or "Waste kg POR")

Carbon Emissions-Carbon Footprint-Green House Gases

# Step 1: Establish Your Baseline KPIs



- Your hotel likely already has, or your suppliers will have access to data required to establish a baseline:
  - Meter readings;
  - Invoices from your energy and water providers or waste contractors;
  - Request data directly from a supplier, contractor or local municipality.

# Step 1: Consumption Benchmarking and Measurement Tools



## ENERGY

$$\frac{\text{TOTAL kWh CONSUMED / Annum}}{\text{INTERNAL SERVICED AREA OF HOTEL (m}^2\text{)}} = \text{kHw/ m}^2\text{/ ANNUM}$$

There is no national benchmark for visitor attractions at present. You can still track against your own benchmark over time.

## WASTE

$$\frac{\text{TOTAL GENERAL WASTE PER YEAR}}{\text{TOTAL NUMBER OF SLEEPERS PER YEAR}} = \text{GENERAL WASTE BENCHMARK PER SLEEPERS}$$

The most recent national benchmark for Irish hotel accommodation is 0.56kg general waste per sleeper (EPA, 2014).

## WATER

$$\frac{\text{TOTAL LITRES CONSUMED / ANNUM}}{\text{TOTAL SLEEPERS/ ANNUM}} = \text{LITRES / SLEEPER}$$

The most recent national benchmark for Irish hotel accommodation is 343 litres/sleeper (EPA, 2014)



# Step 2: Complete An Energy Audit & Efficiency Plan

---

- Engage an Energy Consultant/Engineer to produce an energy audit:

## Why?

**It will establish  
and review energy  
data and systems**

**It will recommend  
changes**

**It will provide a  
basis for grant  
approval**

**It will provide a  
roadmap for  
completing  
necessary works**

Solutions need to be appropriate in the context of guest experience rather than pure engineering.

# Step 3: Build ESG into Your 5-Year Business Plan

Environmental	Social	Governance
Watts	Careers	Public Affairs
Water	Communities	Partnerships
Waste	Conduct	Policies and Reporting

The hotel sector is no less fit for green financing than other asset classes, and its operations may bring different social and governance considerations to how this green financing can be obtained.

- A.
  - Complete a Profit & Loss Projection on the basis of **minimal** investment.
  - Complete a Profit & Loss Projection on the basis of **proactive** investment.
- B.
  - Put in place a funding plan utilising grants, own funds, and green loans.
- C.
  - Put in place ongoing monitoring and reporting system with measurable ESG targets.
- D.
  - Accrue the benefits from investing now to save later with an ESG transition business plan.

# Thank you

Crowe  
40 Mespil Rd.  
Dublin 4  
D04 C2N4  
Ireland

Tel: +353 1 448 2200  
info@crowe.ie  
www.crowe.ie



**Naoise Cosgrove**  
Managing Partner  
naoise.cosgrove@crowe.ie



**Aiden Murphy**  
Partner, Corporate Finance  
aiden.murphy@crowe.ie



**Weldon Mather**  
Director, HTL  
weldon.mather@crowe.ie

Crowe Ireland is a member of Crowe Global, a Swiss verein. Each member firm of Crowe Global is a separate and independent legal entity. Crowe Ireland and its affiliates are not responsible or liable for any acts or omissions of Crowe Global or any other member of Crowe Global. This material is for informational purposes only and should not be construed as financial or legal advice.