How hotel lenders can navigate a turbulent market

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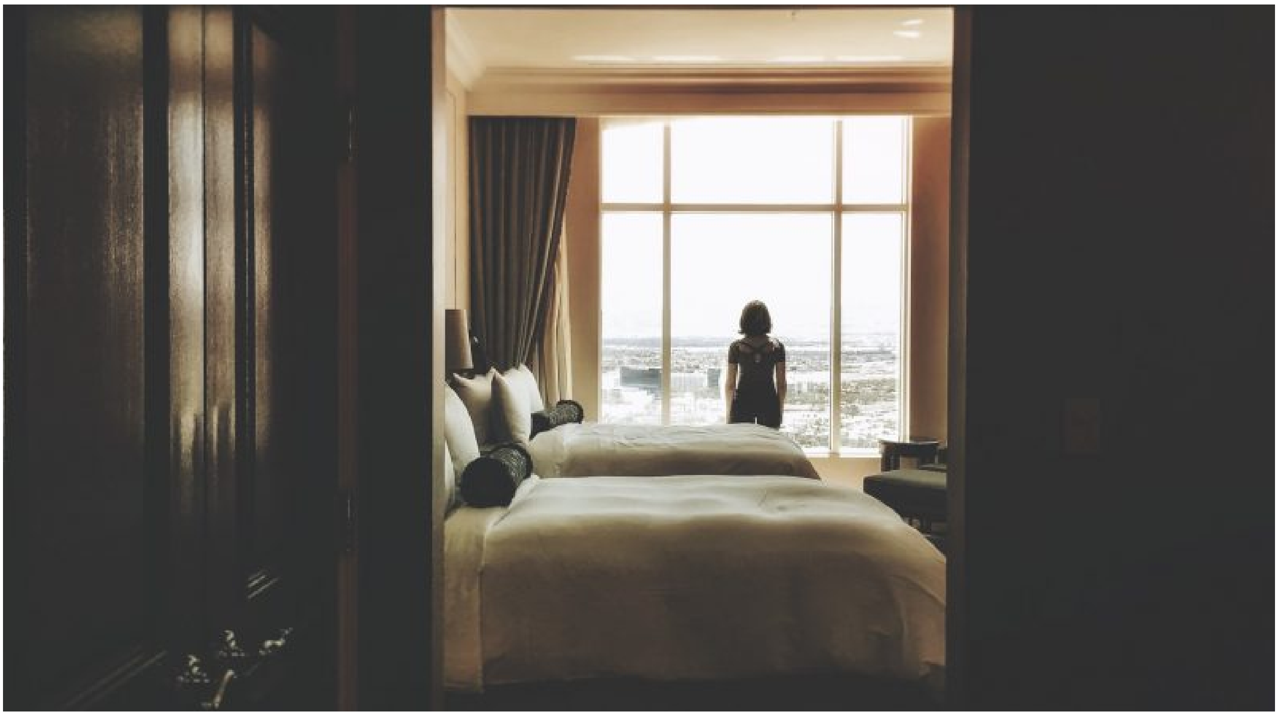

Louise Gillon, head of hotel finance at Leumi UK, highlights three opportunities for hoteliers and lenders to navigate the recovery.

After two years of uncertainty, hotels are back on track – provided they can navigate the minefield of 2022's economic challenges.

Inflation hitting a 40-year high is just the latest addition to a long list of increased costs for hotel businesses, alongside soaring energy costs and supply shortages.

Nevertheless, PwC's Hotel Forecast Report predicted a steady recovery for the sector and returning demand for hotel stays into 2022 – which seems to be holding true, especially after the UK scrapped PCR requirements and entry forms in March, shoring up inbound tourism figures.

But some of the problems that emerged at the beginning of the pandemic are enduring longer than others.

Staffing challenges were one of the earliest hurdles, and it's proving to be one of the most persistent. Industry body UKHospitality reports staffing numbers having dropped by over 660,000 through the pandemic, with a record 400,000 vacancies currently open. To rebuild the industry and navigate through 'The Great Hospitality Reset', as some have called it, recruiting and retaining employees back into the hotel sector is key.

Hotels taking active steps to solve the staffing and costs puzzles are those that will recover quickest – and this is where lenders can be on the lookout for opportunities. There are a number of ways savvy hoteliers have been keeping costs low and retaining staff in this difficult environment.

Firstly, by embracing technology. There are numerous ways streamlining operations can make huge savings in the face of increased staff costs, like the pricing strategies adopted by Fornova, one hotel proptech firm whose modelling ensures hotels are optimising distribution and maximising revenue. Many similar platforms exist, using data to drive efficiency at every level of the business.

Second, by focusing on the 'S' and the 'G' of ESG, hotel operators can boost retention. The hospitality industry has been known as a sector with long hours and low pay, an issue that was cast into the limelight when workers fled the industry during the pandemic.

This of course isn't true across the board, and so ensuring adequate wages, positive company culture and strong welfare programmes is key. Equally, demonstrating to customers a commitment to employee wellbeing can command a premium when it comes to pricing.

Similarly, with customers increasingly looking for boutique, localised experiences, being able to draw from local knowledge in a workforce is a huge bonus for hoteliers keen to take advantage of consumer trends. In this way, paying a premium for local talent and curating an 'off the beaten track' experience can pay dividends when it comes to attracting customers.

Third, most in the industry are taking a long-term view, bearing in mind the likely structural shifts underway in the labour market. Almost half of hospitality workers are under 29 – and given an ageing population, hotels will have to continue to appeal to younger demographics in their hiring strategies.

While the experience of the last two years has shown that certain asset types have performed better than others – out of town, limited service hotels have typically fared better than city centre hotspots – lenders need to look beyond the characteristics of the building and its location, and start to consider how technology, company culture and hiring practices can determine how well a hotel will perform after the aberration of the past two years.