CONTENTS

A ROOM WITH A REVIEW: THE RENAISSANCE OF THE INDUSTRY? .................................................. 3
Q3 HIGHLIGHTS .................................................................................................................................... 4
PERFORMANCE OF REGIONAL DESTINATIONS ......................................................................... 5
ECONOMY AND TOURISM UPDATE .......................................................................................... 6
FOCUS ON: CORONAVIRUS JOB RETENTION SCHEME - EVERYTHING YOU NEED TO KNOW .......................... 7
BDO LEISURE AND HOSPITALITY SERVICES ............................................................................. 9
Welcome to this edition of BDO’s Hotel Quarters - Q3 2020: a detailed quarterly analysis of the UK hotel sector. It is with great sadness that we find ourselves publishing this interim report in the midst of a second national lockdown - a lockdown likely to have an even greater impact on the hospitality industry than the first.

Struggling companies have been supported by the VAT reduction from 20% to 5%, the ‘Eat Out to Help Out’ promotion, a 12-month business rates holiday, as well as the Job Support and Furlough scheme. However, accrued debt from lockdown closures, trading limitations over the summer months, cash required to comply with new regulations, and a lack of consumer confidence have overwhelmed many businesses. Companies that rely on corporate, group, or MICE business, and international travel are particularly floundering. And those who have managed to stay afloat thus far have been left in a fragile state to face lockdown number two - and beyond.

Ironically, it is times like these when one wants nothing more than to nestle down in a pub with a group of friends. However, as we remain stranded in our home offices, or indeed at our kitchen tables, we at BDO have been using this period to harness the power of the ‘rethink’. As we help to guide businesses into this new reality with updated regulatory controls and risk management, we have witnessed the impact on supply chains, workforce, and sales. Therefore, is there a better opportunity than now to rethink the paradigms of the hospitality industry?

The current climate will push hospitality firms to re-evaluate their business models and so to realise opportunities for growth. To react strategically to the challenges at hand and to rise from the pandemic more agile and robust than previously. By:

- scrutinising expenses at a granular level and producing innovative methods of streamlining;
- investing in more effective analytical marketing to boost sales;
- making use of new technologies which reduce face-to-face contact while optimising efficacy and enhancing guest experience;
- transforming hotel space: creatively ‘feng-shui-ing’ communal areas to allow for efficient social distancing, and spending more time on the ‘in-room’ enjoyment, which will now be so vital to each stay;
- focusing on a greener recovery: energy efficiency, price-stable renewable energies, locally-sourced foods, and the eco-friendly perks of the staycation offer both financial and environmental benefits.

While it is true that such changes might be Darwinian in their requirement, in doing so, firms can use this moment of difficulty to refresh their brand, to create a more sustainable business model, and to radically boost profits once the market, and indeed the world returns to normal.

The hospitality industry will always facilitate mankind’s innate requirement to connect. And we have already seen its resilience when faced with past geopolitical crises. Thus, the question is not if we will recover, but when: experts have suggested occupancies reaching 2019 levels by 2023, with average room rate and RevPAR recovering in 2024. So, business may be slow for now and the battle daunting, but we will survive. And what is more, we may well see long-term positive transformation emerge in the face of this adversity.
Q3 HIGHLIGHTS
UK HOTELS RE-OPEN FOR SUMMER

Six turbulent months after our publication of Hotel Britain Lite 2020, what state is the industry in, and how did hotels fare over the summer? The results are alarming, as expected: UK occupancy levels have plummeted by 49.3% since Quarter 3 2019, and rooms yield by 67.0%.

Despite the boon of the staycation, regional UK hotels suffered a 44.0% occupancy contraction in comparison with summer last year. This, combined with an AARR decrease of 18.1%, led to an overall rooms yield of -54.0% for the period. England and Scotland were more gravely impacted by market conditions than Wales, with falls in yield of 54.3% and 55.8% respectively. Of the cities examined, Bath and Swansea managed to retain the highest occupancy levels from staycations, with 67% and 69%. Heathrow hotels, whose largest source of revenue is international gateway stays, experienced a 69% crash in occupancy.

London, who has out-performed regional hotels in recent years, sustained an even greater nosedive of 67.4% occupancy and 81.9% yield. This is due to its reliance on corporate, group, and international bookings. Of the London hotel categories, Boutique hotels were the worst affected in terms of both occupancy and yield.

<table>
<thead>
<tr>
<th>LOCATION</th>
<th>QUARTERLY OCCUPANCY (%)</th>
<th>QUARTERLY AARR (£)</th>
<th>QUARTERLY ROOMS YIELD (£)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>QUARTERLY</td>
<td>% Ch.</td>
<td>QUARTERLY</td>
</tr>
<tr>
<td>LONDON</td>
<td>27.6</td>
<td>84.5</td>
<td>-67.4</td>
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<tr>
<td>REGIONAL UK</td>
<td>44.4</td>
<td>79.2</td>
<td>-44.0</td>
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<tr>
<td>ENGLAND</td>
<td>44.0</td>
<td>79.2</td>
<td>-44.5</td>
</tr>
<tr>
<td>SCOTLAND</td>
<td>44.5</td>
<td>79.3</td>
<td>-43.8</td>
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<tr>
<td>WALES</td>
<td>52.7</td>
<td>78.9</td>
<td>-33.2</td>
</tr>
<tr>
<td>TOTAL UK</td>
<td>40.9</td>
<td>80.7</td>
<td>-49.3</td>
</tr>
</tbody>
</table>
# PERFORMANCE OF REGIONAL DESTINATIONS

Based on the Average Achieved Room Rate (AARR) in 2020 and 2019. Rooms equals the available rooms/day relates to 2020 figures only and is rounded to the nearest 50.

AARR and Rooms Yield values are Net of VAT. * Differences may be due to rounding.

<table>
<thead>
<tr>
<th>LOCATION</th>
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<th>QUARTERLY AARR (£)</th>
<th>QUARTERLY ROOMS YIELD (£)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2020</td>
<td>2019</td>
<td>% ch*</td>
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<tr>
<td>ABERDEEN</td>
<td>45</td>
<td>70</td>
<td>-36</td>
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<tr>
<td>BATH</td>
<td>67</td>
<td>89</td>
<td>-25</td>
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<tr>
<td>BIRMINGHAM</td>
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<tr>
<td>BRISTOL</td>
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<td>CAMBRIDGE</td>
<td>42</td>
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<td>-52</td>
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<tr>
<td>CARDIFF</td>
<td>45</td>
<td>92</td>
<td>-51</td>
</tr>
<tr>
<td>DERBY</td>
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<td>80</td>
<td>-44</td>
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<tr>
<td>EDINBURGH</td>
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<td>GLASGOW</td>
<td>23</td>
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<td>HEATHROW SLOUGH</td>
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<td>MILTON KEYNES</td>
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<tr>
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<td>NORTHAMPTON</td>
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<td>OXFORD</td>
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<td>-65</td>
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<tr>
<td>READING</td>
<td>31</td>
<td>81</td>
<td>-62</td>
</tr>
<tr>
<td>SOLIHULL &amp; BHX AIRPORT</td>
<td>37</td>
<td>81</td>
<td>-55</td>
</tr>
<tr>
<td>SWANSEA</td>
<td>69</td>
<td>82</td>
<td>-16</td>
</tr>
<tr>
<td>SWINDON</td>
<td>36</td>
<td>76</td>
<td>-52</td>
</tr>
</tbody>
</table>

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AARR and Rooms Yield values are Net of VAT. * Differences may be due to rounding.
ECONOMY AND TOURISM UPDATE
LATEST STATISTICS FROM A CORONAVIRUS-WORLD

As expected, the most recent forecast for the tourism industry this year is a perturbing demonstration of the damage wreaked by the pandemic. Particularly for an industry underpinned by both travel and personal interaction.

In October, VisitBritain predicted that inbound tourism to the UK will fall dramatically by the end of the year: by 10.6 million visits (a 74% decrease) and by £6.1 billion in spending (a 79% decrease). In comparison with last year’s pre-Coronavirus forecast, this would characterise a loss of 31.1 million visits and £23.8 billion in spending.

Although the number of visitors to the UK improved once international borders began to creep open over summer, they remain alarmingly low. Moreover, now that we find ourselves in a second total lockdown with international travel limited once again and quarantine policies, the final figures at the end of 2020 are likely to look even bleaker than anticipated in October.

The latest economic release from ONS concerns April to June (Quarter 2) 2020, and reports that UK GDP fell by a devastating 19.8%. As the largest quarterly contraction to have ever been documented, this record-drop is a reflection of the governmental restrictions imposed to prevent the spread of Coronavirus.

In fact, Quarter 2 has led to record declines in all countries reporting. Nonetheless, the size of the shrinkage has been shown to vary in each country depending on the spread of the virus, the timing of restrictions put in place, and the weight of particularly vulnerable industries in their respective economic structure.

The UK’s 19.8% decline represents a 21.5% drop in comparison with Quarter 2 2019, and follows a less dramatic fall of 2.5% in Quarter 1 of 2020. ONS also confirms record quarterly drops in output. This has been especially evident for the industries most impacted by the social distancing limitations, such as production (16.3%), services (19.2%), and construction (35.7%).

Conversely - and unsurprisingly - the UK’s households saving ratio rose to a record high of 29.1%, compared with 9.6% in the Quarter 1.

* % YoY December 2019 to 2020
FOCUS ON
CORONAVIRUS JOB RETENTION SCHEME: EVERYTHING YOU NEED TO KNOW

Chancellor Rishi Sunak has unveiled a further extension to the Coronavirus Job Retention Scheme (CJRS), which is now expected to expire at the end March 2021 and will not be dependent on national or local lockdowns. For employees made redundant between 24 September and 30 October, it may be possible to re-employ them and then furlough them until 31 March 2021. As with past extensions to the scheme, there are changes to rules for November 2020 to March 2021 claims. Claims under the rules for periods up to 31 October 2020 can still be made or changed up to 30 November. It is still expected that when the CJRS expires, a further Job Support Scheme aimed at minimising unemployment will replace it. Read more on the two strands of the Job Support Scheme.

HMRC has restated that it will check all claims before payments are made and from December 2020 will publish details of all companies and LLPs making furlough claims (employees will be able to see information about furlough payments on their Personal Tax Accounts). It is important to make sure that all claims you have made are checked as any errors must be reported to HMRC and corrected — read more on the HMRC’s CJRS enforcement rules and powers.

Following the introduction of the CJRS, we’ve received a number of enquiries from clients with questions about the mechanism and process involved. Our summary is available at the links below and reflects the most common questions and responses based on information which is currently available.

The Basics
- Flexible furlough — how does it work?
- Job retention bonus scheme — how will it eventually work?
- What is a furloughed employee?
- How will CJRS payments be paid to us?
Calculations
• How much is the CJRS subsidy for each month?
• Where can I get help with CJRS calculations?
• How do we reduce our risk in using the CJRS?
• What is the minimum furlough period?
• What about holiday pay?
• How does CJRS affect R&D claims?

Eligibility
• Which employers are eligible?
• Which employees can/could be furloughed?
• How does the maximum number of furloughed employees rule work from 1 July?
• What about training for furloughed employees?
• Are Expats eligible for the Coronavirus Job Retention Scheme? And does the employee have to be physically paid by the UK employer?
• I operate through my own personal service company but my work has dried up, can I furlough myself?

Implications
• What about people I laid off in my business the week before the original CJRS announcement, could I still claim for them?
• What happens if we have made a mistake in our furlough claim?
• Is the CJRS payment taxable?
• Do CJRS payments have to be counted for EU State Aid limits?
• We offer benefits in kind through a salary sacrifice arrangement, how are they treated?
• Redundancies – how do they affect CJRS claims before the leaving date?
• How are HMRC approaching cracking down on false claims?
• What if instead of furloughing employees we pay them reduced wages and/or cut their hours during the crisis instead?
Our team works with international businesses across the leisure industries, including restaurants and bars, betting and gaming, hotels, professional sports and fitness, and travel and tourism.

We provide assurance, tax and advisory services to our clients who range from small owner-managed businesses to large corporations in both the private and public sectors, many of whom are market leaders.

HOTELS

Experience says a lot about a firm. BDO’s hotel involvement stretches back almost 100 years and our London office established its sector consultancy in the early 1970s. Since then we have undertaken thousands of assignments throughout Europe, the Middle East, Africa and the Caribbean.

This expertise covers the entire spectrum of investment and operating activities and our involvement brings credibility, competence and independence to any project. Our team of dedicated professionals have experience gained from a range of industry disciplines. This means that we have a wider perspective and can use their practical knowledge to achieve the best possible outcome for our clients.

There is no other sector consultancy in Europe with a research and performance database that stretches back as far as ours, or contains the volume of information that we possess. Our research and publications team, and our archive facility, ensures that our clients and consultants have immediate access to the latest authoritative data.

In short, if you are active in the hotel industry then you should be talking to BDO.

BDO LEISURE AND HOSPITALITY SERVICES

Specialist advice we provide to the sector includes:

- Feasibility studies
- Valuations
- Strategic consulting
- Litigation support/expert witness services
- Transaction support
- Operator searches
- Mergers and acquisitions including MBOs, MBIs and flotations
- Fund raising and refinancing
- Financial investigations
- Systems reviews
- Turnaround and distressed situations
- Need analysis.

BDO LEISURE AND HOSPITALITY SERVICES

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