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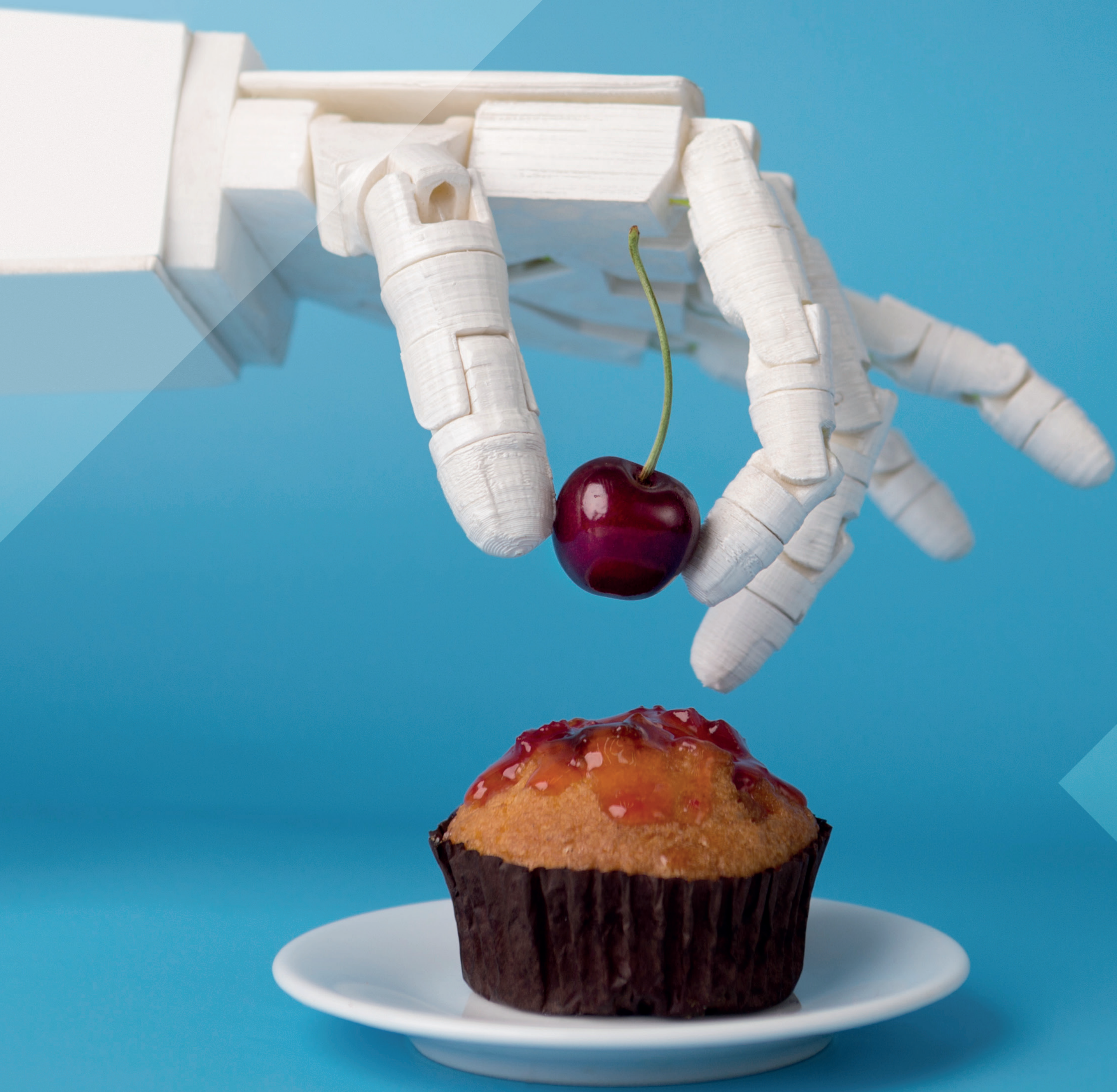

A NEW DIRECTION FOR TRAVEL

Left-field thinking helped hotels survive Covid, now bold ideas are going mainstream

The travel industry faces an uncertain holiday season for the third year in a row as the economic ripples of the Ukraine conflict are amplified by the persistence of Covid in many key tourist markets.

However, two years of improvisation, innovation and reinvention mean many businesses are better able to survive the continuing turmoil. Measures introduced in panic when Covid struck are now proving to be beneficial to operational efficiency and financial sustainability – and are already becoming the "new normal".

Russian action in Ukraine has created new risks – not least an oil price spike which has pushed up fuel costs – but the United Nations World Travel Organisation is sticking to its prediction that international tourist arrivals globally in 2022 will still be 30-78% higher than in 2021.

Many measures which would once have been considered inappropriate by most hoteliers became necessities during the pandemic to help hotels stay afloat.

Rooms were not cleaned every day and check-in went online. Restaurant menu options were accessed via a QR code on a smartphone – and reduced to compensate for the fact that most properties were running on skeleton staffing to preserve cash.

Individually, they may seem inconsequential but as a package they make a big impact on business sustainability. What is more, customers did not seem to mind and that is encouraging hoteliers to go further.

Moore Global's hotel and leisure experts predict several emerging trends will gain real momentum and soon become standard operating procedures for hotel groups across the world.

For many businesses, one of the biggest obstacles to a return to normal is the lack of staff. There are expected to be around 60 million job vacancies in the hotel industry this year and the majority of those hourly paid jobs will probably remain unfilled as millions of low-paid staff have moved on to other sectors, retrained or left the employment market all together.

60 million

vacancies in global hotel industry in 2022

With fewer people to call upon, technology is being mobilised to fill the gaps.

Expect to see more mobile apps allowing guests to personalise every aspect of their stay, while waiting staff in mid-market hotel dining areas could be replaced with robots delivering and fetching plates from tables.

"Jobs are available but it is hard to lure people back and that means we need innovation," says Márton Takács, global leader of hotel and leisure at Moore Global. "I expect to see more and more tech solutions throughout the whole experience from the time of booking to paying and leaving.

"I am talking about housekeeping robots, food service robots with trays rolling to your table and self check-in hotels. This is already happening in some places but we anticipate these solutions will become the standard hotel experience from budget to upper-midscale properties."

Clever technology solutions can elevate the guest experience by giving individuals more control of their environment. They also free up hotel staff to interact with guests where personal service really matters.

"A lot of this was being discussed before Covid but the pandemic has accelerated changes and forced operators to push forward faster," says Takács, who is also head of hotel and tourism advisory at Moore Hungary. "After the gloom of the last two years, these are exciting times for the industry as it gets back on its feet and eyes up new opportunities. The sector has shown great resilience and hotel assets are still popular with investors."

Europe will lead the way with new hotel openings but there is a sense of renewal evident in most of the major markets across the world. Expanding supply might impact room occupancy rates in the mid-term but that is balanced by the pent-up demand evident across most of the main travel markets. Ironically, the sharp rise in inflation which is worrying policy makers will inevitably boost hotel sector revenues.

Both 2020 and 2021 saw visitor numbers in hotels well down on pre-Covid 2019. Despite vaccine roll-outs and an easing of lockdown measures in most countries throughout 2021, the number of visitors only increased by 4% over 2020, when the pandemic was at its height.

"Jobs are available but it is hard to lure people back and that means we need innovation"

Márton Takács, leader of Moore Global hotel and leisure group

4%

increase in visitor numbers in 2021

However, an analysis by Moore shows that the picture last year was much more encouraging from the second quarter onwards as travel restrictions eased in the wake of successful vaccine roll-outs.

From April to December visitor numbers jumped 94.5% compared to the same period in 2020.

Industry takings collapsed 39% in 2020 and fell a further 7.4% in 2021 to around $723 billion, according to research consultancy IBISWorld. At the start of 2022, the travel trade is well ahead of the years of strong growth from 2013-2018 but around $255 million behind the boom year of 2019.

Though uncertainty remains, there is a clear sign that the recovery that started last summer is maintaining momentum.

Europe was the best performing region in terms of growth rate in 2021, registering a 19% uptick in tourist arrivals over the year compared to 2020, with most of the improvement taking place from June-July.

The continent is actually witnessing an all-time high in new hotel openings. More rooms were handed over by the end of August 2021 than in whole 2020 and 2022 is set to break a new record with the opening of another 110,000 rooms.

Leading hotel chains were heavily affected but the pandemic did not reduce their appetite for growth. In fact, five large groups accounted for 50% of the total hotel construction pipeline in Europe in the fourth quarter of 2021 - Accor, Marriott International, Hilton, IHG Hotels & Resorts and Radisson Hotels.

It remains to be seen how those plans will be affected by military action in Ukraine, though 54% of new rooms in the development pipeline are in the UK, Germany, France, Italy and Spain which are far from the frontline.

Growth is also returning in the United States. Moore hotels expert Jennifer Hogencamp says coastal properties, destination venues and ski resorts have bounced back strongly and many of her clients have seen “unprecedented” ADR levels. ADR, or Average Daily Rate, is a key performance indicator that shows the net revenue generated by each occupied room.

"I know places that doubled their ADR and had phenomenal years. Properties near water, vacation destinations and those in the luxury space did really well," says Hogencamp, who is a partner at Citrin Cooperman on the US east coast.

"A lot of people have been cooped up due to COVID and want to spend time and money on a holiday in a nice hotel. The question is, will they continue to spend money and spend at that rate."

It is a question exercising the minds of operators of business hotels catering for company travel and conventions who, on the whole, have failed to see the same resurgence as work patterns change and many events consider moving to an online or hybrid format.

A report by the American Hotel and Lodging Association said occupancy was only around 58% in 2021 and most hotels spent the last two years well below their break-even point, relying on reserves to cover expenses.

Wages support schemes introduced by the US government helped to preserve millions of jobs and many hotel operators reached debt deferral agreements with their banks to preserve cash, However those Covid era measures are coming to an end and there is a cash crunch looming for many properties.

"A lot of people have been cooped up due to Covid and want to spend time and money on a holiday in a nice hotel. The question is whether they continue to spend at that rate."

There is a big gap in the expectations of buyers and sellers – potential purchasers expect to find a lot of distressed assets they can pick off cheaply while those hoteliers who have survived have seen valuations across the hotel sector rise and are looking for a price premium.

"I know investment companies – and even individuals – with hundreds of millions of dollars ready to buy but they can't find the right assets because there is a gap between the expectations of the buy and sell sides," says Hogencamp. "It is a stand-off between owners expecting valuations to go ever higher and buyers who have millions to spend but cannot afford to over-pay."

"Investment companies with hundreds of millions of dollars are ready to buy but can't find the right assets"

Jennifer Hogencamp, partner at Citrin Cooperman

50%

Occupancy in 2022 but still shy of 60% targets

Before Covid, Asia had been a red-hot market. Today it is hampered by some of the world's strictest remaining Covid measures.

Malaysia sits at the nexus of west and east in the travel market, drawing big numbers of tourists from Europe while benefiting from its multicultural ethnic make-up that attracts visitors from China and south Asia.

It is in the process of opening up, which will be a relief to hoteliers that have had to survive on occupancy rates as low as 5%. From the start of the pandemic to September 2021, the Malaysian hotel industry sustained losses of $3.5 billion.

In such dire circumstances the industry got creative. Though borders were closed, hoteliers structured attractive staycation packages that bundled room nights, food and leisure for Malaysian families.

They were among the first to promote the "Work From Hotel" concept with attractive and affordable rates bundling together meals, access to high-speed internet and online meetings or video conferencing facilities.

Many hotel restaurants and cafés normally set up to serve hotel guests for buffet breakfast were converted to food courts and open to families to dine in.

Hotels also offered themselves as COVID-19 quarantine centres, which at the same time helped to ease the burden of the healthcare system and facilities.

Moore's analysis shows that the opening of borders should increase occupancy rates to around 50% – much better but still short of the 65% hotels traditionally aimed for.

"It has been a struggle but with the borders opening we are all more confident about getting back to normal," says Stephen Wan, managing partner of Moore Malaysia. "I am sure many of the lessons learned during the worst of the Covid period will help us re-establish a thriving tourist industry."

While the world is at different stages of recovering from Covid and geopolitical events are causing deep concern in some key markets, there is an optimism in the travel industry that has been absent for too long.

> "With the borders opening we are all more confident about getting back to normal"
>
> **Stephen Wan, managing partner of Moore Malaysia**

Hotel visionary predicts future travel plans

New York hotelier Ian Schrager, who is credited with inventing the concept of the boutique hotel, has outlined his vision of post-Covid travel.

He believes boutique properties will continue to thrive but there will be a consolidation of mid-market brands where higher costs and and lower margins could make some unviable.

Some lower-end hotels will do away with restaurants and provide room service via apps connected to “ghost” kitchens.

However, super-luxury with high staff-to-guest ratios, fine dining options and unique experiences will continue to do well. “You’re going to see people regularly paying £10,000-$15,000 a night for a nothing-but-the-best level of service,” Schrager told an interviewer earlier this year.

Lower down the scale, he envisages floor plans with three or four single bedrooms off a communal living room. Work teams will congregate for a few days to catch up and discuss projects in a convivial environment before heading off the to hotel’s gym, pool, in-house grocery, nightclub or restaurant.

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