

2021 New Year Message – Potential for a Huge Rise in Insolvencies and Job Losses in the UK Hotel Sector

January 7, 2021 / By Russell Kett



Like many people, I returned to my desk this week after the now-familiar five-second commute between the kitchen and my office at home and pondered what the New Year is likely to bring the UK hotel industry. By the time Boris Johnson started his TV broadcast at 8pm on Monday and Lockdown 3.0 had now commenced, any optimism we might have had was substantially depleted.

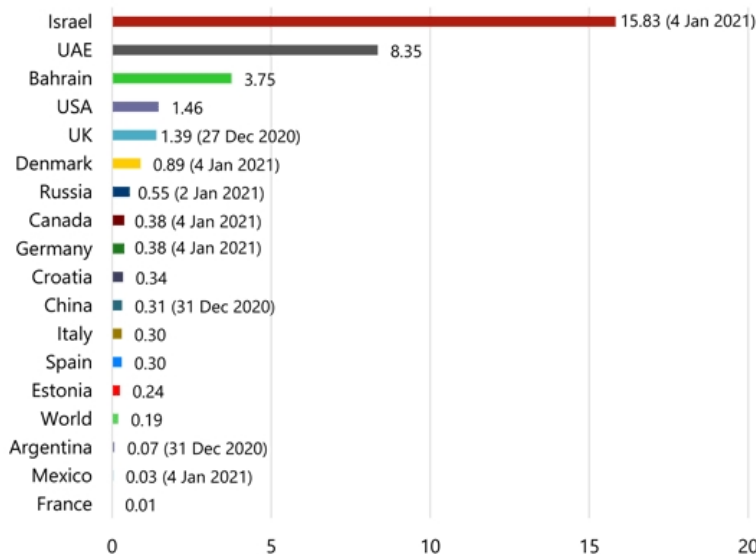
Having built up a wave of optimism as 2020 progressed – original total lockdown – furloughing and other government-backed schemes – loosening of the restrictions – investment in PPE/cleaning protocols/reopening – staycations – Eat Out to Help Out – preparations for a pre-Christmas boost to demand – a vaccine finally arrives, then whoa there! – the second lockdown was thrust upon us, bringing new tiers and restrictions. As we moved through December, Christmas itself was cancelled in all but name and, as the New Year dawned, the prospect of a third national lockdown loomed large, with schools facing closure, public examinations being cancelled and the NHS buckling under the pressure of rising numbers of Covid patients, many suffering from a new, more rampant strain.

All this and Brexit too.

Whilst we now have two welcome vaccines, it beggars belief that the UK is completely underprepared to administer them quickly despite being the first country to license them for use. The following chart shows what happens when at least one country gets its act together...!

COVID-19 Vaccination Doses Administered per 100 People as at 5 January 2020

Total number of vaccination doses administered per 100 people in the total population. This is counted as a single dose, and may not equal the total number of people vaccinated, depending on the specific dose regime (for example, people receive multiple doses).



OurWorldInData.org/covidvaccinations - CC BY

Source: Official data collated by Our World in Data. Dates refer to when the data was reported

Summary

Russell Kett takes a look at the year ahead and discusses what the current restrictions in the UK and the current course of the pandemic mean for UK hoteliers.

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Meanwhile, I have serious concerns for our hotel sector and that urgent attention needs to be given to prevent a meltdown of one of the most important sectors of our economy. Here are some of my immediate concerns.

Key Issues

- Government-led support for the hotel and wider hospitality sector has been a welcome shot-in-the-arm – the furloughing of many staff, business rates holidays and soft loans. However, these are time bound and hotel businesses will need to make crucial decisions in early 2021 that will impact their survival. As hotel businesses come under increasing financial pressure, many of those now furloughed until April 2021 will be let go in an attempt to reduce operating costs, thereby boosting the unemployment statistics. UK Hospitality estimates that 660,000 jobs have already been lost.
- For hotels and the wider UK hospitality sector, 2021 is going to be very tough. While any eventual growth in top-line revenues over 2020 levels will be a cause for celebration, operating profits will be anaemic and less than half of 2019 levels in the Provinces and around a third of 2019 levels for London hotels. When fixed costs are then deducted, many operations will be loss-making and will experience negative cash-flow until strong revenue gains can be made.
- Independent hotel businesses with constrained financial resources or liquidity will be hardest hit. Larger hotel groups and owners with capacity to inject additional funds will be less at risk. Smaller independent operations that have a more hand-to-mouth existence will be at particular risk.
- On the demand side, pent-up demand is high, but so is confusion; confidence around making booking commitments is low. As confidence builds on the back of the vaccine roll-out and progress is made in the mass immunisation of the population, and as lockdown conditions hopefully are relaxed by the end of Q1 or early Q2, so with the summer in prospect, that pent-up demand should be unleashed. However, support is needed now, so that these businesses will still be standing to capitalise on the upswing and thus bring the wider benefits to the overall economy with them.
- The hotel and wider hospitality sector has been the economy's biggest generator of employment over recent years and is the only sector with the capacity to rapidly boost employment on the recovery out of this. For this to happen, though, the sector needs support to see it through H1 2021 and not be exacerbating the employment problem through a lack of support now.

The Potential Impact

- This recovery will come too late for many small businesses without the support of government. Job losses, already approaching 700,000, could double – dwarfing the impact on the retail sector employment for example.
- As hotels and hospitality businesses struggle to produce both profits and a positive cash-flow, three immediate outcomes will arise:
 1. Staff other than the most essential will be let go. This will particularly affect those who are currently benefiting from the furlough scheme. Many businesses will not be able to afford to continue their employment.
 2. Businesses facing negative cash-flow and with looming breaches in their banking covenants and mounting unpaid debts, will be forced to call in the receivers and declare bankruptcy.
 3. Receivers/administrators will endeavour to restructure and/or sell these businesses as going concerns, but time is critical. Some might survive and be acquired by new owners who will rationalise their operations, reducing the number of staff employed there in the process, perhaps significantly. Many businesses will be forced to close altogether causing further job losses.
- This is likely to happen in Q2 of 2021 for many independent businesses – especially those which have managed to stay afloat during the first quarter when some of these insolvencies will start to arise.

- Once the first wave of insolvencies has hit, there is then the risk of further businesses running out of cash before the hoped-for recovery in trading has been encountered.

Suggested Actions

- Further support could start with the hospitality sector being treated with the recognition it deserves, such as that afforded to retail (which was allowed 24-hour opening in the run-up to Christmas while severe restrictions were imposed on the hospitality sector). Hospitality could, with support, provide obvious opportunity for those legions of workers being lost from retail, especially as the effects of a post-Brexit UK gain momentum.
- The UK hotel sector will not be ready to welcome back many of the furloughed staff until well into 2021 and possibly beyond – especially those working in businesses which are hardest hit, such as those reliant on international travellers, meetings, events and conventions. Extending the furlough scheme to the hotel and wider hospitality sector by a further year beyond April 2021 will prevent many of these employees from being made redundant and adding to the unemployment statistics. This allows for the longer-term recovery of certain businesses and, for these, this may need to be further extended.
- Extend the moratorium on business rates and keep the lower rate of VAT of 5% for a further twelve months, to March 2022. At least. Conceivably longer.
- Encourage UK lending banks to permit the continued breach in banking covenants until March 2022, providing certain conditions are met by the borrowers.
- The UK hotel sector has already made a huge investment in ensuring their premises and operations comply with Covid-related health & safety requirements, such that they should be permitted to resume operations as soon as national lockdown considerations can be relaxed. Obliging them to remain closed in such circumstances should not be necessary in future in all but the most severe tier restrictions.

Russell Kett

Chairman, HVS – London Office

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About Russell Kett



Russell Kett is Chairman of the London office of HVS, which he joined in 1995. He has 45 years' specialist hotel consultancy, investment and real estate experience, focused on providing valuation, feasibility, shared ownership, property, brokerage, investment, asset management, strategy and related consultancy services, advising hotel companies, banks, developers and investors on all aspects of their hospitality industry related interests, throughout the EMEA region. Russell is a frequent writer, moderator and speaker on the international hotel industry, especially topics relating to hotel valuation, investment, marketing and finance. For more information, contact: [\[email protected\]](#)