PKF

Accountants & business advisers

hotelquarters

a quarterly review of the UK hotel industry

Issue 3 - Q4 2012

A season of mixed fortunes

Robert Barnard
Partner, PKF Hotel Consultancy Services

The last quarter of 2012 was certainly unusual. Regional hotels saw record growth in all KPIs, but London could not match the previous year's performance. This was in spite of October being a champion month all round, with both the Regions and London outperforming against the previous October. It was December, an underperforming month for both markets, that witnessed a comparatively poor performance.

October brought a boost to occupancy for both London (1.6%) and the Regions (0.4%), with the stand-out performers being London's deluxe hotels, rising by 3.7%. In the Regions, airport hotels soared highest for occupancy, with a 4.9% increase. By contrast, budget hotel demand seemed to slip, recording a -6.5% occupancy decrease. The overall market increase in occupancy for October, combined with the AARR growth, saw rooms yield rise for London (5.5%) and Regional hotels (2.0%).

But in November London's occupancy fell by -0.9%, with many tourists choosing to wait for December to take their holidays. AARR also slipped from £151.64 to £147.36, a -2.8% decrease from the previous year, to bring rooms revenue down by -3.7%. In contrast, the Regional market performed well, although occupancy remained stagnant there was an AARR increase from £60.75 to £61.03. As a result, rooms revenue grew by 0.2%. All London hotel segments recorded falling occupancy in November, and AARR declined across all segments as hoteliers tried in vain to stimulate demand from an unresponsive market.

November's performance trends continued into December – the Regions saw growth while the capital confined to lose ground. London's overall rooms yield dipped by -0.7%, against a Regional rise of 2.4%. Occupancy remained fairly flat throughout the month, with only a 0.7% increase for the capital and a negligible decrease in the Regions of -0.2%.

events

APR 17

Hotel Britain Launch

17th April 2013

Keep your diaries free!

news

PKF and BDO Merger

PKF (UK) LLP and BDO LLP recently announced they have agreed to merge by spring 2013. The firm, under the BDO brand, will be a leading accountancy and business advisory firm, with some 3,500 people in the UK generating revenues approaching £400million. The merger creates a financially strong business with significant sector and geographical coverage across the UK.

It will be a member of BDO International, the largest global accountancy organisation aimed at the mid-market, with revenues of over $6bn operating in 138 countries worldwide.

In the capital, business hotels were the only segment experiencing growth in all KPIs, with a 3.1% increase of rooms yield due to the holiday season that pushed occupancy (2.1%) and average room rates (1.0%) up.But the real winners in November were Regional luxury hotels, recording the highest increase in occupancy at 5.0% and an overall rooms yield growth of 4.3%, lifting it from £55.51 to £57.93.

Overall, it was a stable quarter for both markets. Although the increase in supply during the period may have affected occupancy rates across the capital, there was very little decline in demand. This quarter's winners were definitely Regional hotels, which recorded increases in all KPIs. The overall figures for Q4 reveal the difference between the two markets in terms of rooms yield. London hotels decreased their AARR from £146.23 to £144.23, spurring demand and increasing occupancy by 1.0% to 82.8 – but this was not enough to record an overall rooms yield growth. As a result, rooms yield decreased by -0.4% to £119.46. By contrast, Regional hotels increased their AARR sufficiently (from £75.27to £76.27) and also occupancy (up 2.2%), resulting in an increase in rooms yield from £49.33 to £51.09, up 3.6%.

Notably, this quarter also marked the poor sales of retailers, affected by snow, flood, and freezing temperature, as well as the rise of the online bargain hunting. This trend seems to tie in with hotels' rooms yield results for Q4. However, on a larger scale the London and regional hotel markets both recorded full year rooms yield growth, at 3.5% and 0.4% respectively.

Like Hotelquarters but want a more indepth analysis on a monthly basis? Click here to find out more about a subscription to **Monthly UK Trends**

focus on

Gratuities – or gratuitous?

Customers are often irked to discover that their final bill is far more than they were expecting. If you want your guests to keep smiling, then you owe it to yourself to make service charges as transparent as possible.

Hoteliers will always look at alternative ways to ensure profitability remains robust. Imposing service charges is one way to do this – but it is a method to be used with great care. In almost every other retail environment, the advertised price is what is payable, but the hospitality industry is different. Here pricing policies are influenced by how competitors present their prices to the public – especially online. This has given rise to some challenging issues to consider.

Under UK law, a service charge added by the business belongs to the business – as do gratuity amounts added by the customer to a bill paid by other means than cash. Also, the business must consider carefully which areas of its activities can implement a service charge, along with how this is advertised to the customer – and whether the additional income justifies the damage to customer sentiment.

Designating a service charge as optional is a method of avoiding the imposition of VAT. So long as it is not a compulsory charge, it is free of VAT.

Tax and National Insurance rules favour separating service charge distribution to employees from the normal payroll, and also prefer management not to dictate in how payments are allocated. Also, minimum wage law requires the business to demonstrate that it does not use the income from service charges or tips to pay the relevant minimum wages.

The industry needs to be consistent in how service charges and gratuities are accounted for and reported. This is essential to allow comparability of performance for benchmarking purposes, and also to ensure compliance with income related contractual obligations, for example turnover rents and management contract fees.

All these factors must be carefully considered, so that you can clearly see what impact they are having on your customers, your employees and the business itself.

expert advice

Nick Warner gives us his VAT tips

VAT-man crashes the party

That wedding reception or birthday bash may now cost more than your customers bargained for. HMRC has confirmed that, from 22 January 2013, hire of conference rooms in hotels and similar establishments for catered events is a standard rated supply (even if it is a 'room only' hire with a third party caterer booked independently).

Before October 2011, the supply of a hotel conference room where the hirers used their own caterers was regarded as VAT exempt, unless the hotel had opted to tax. But HMRC changed its mind and showed such hires as a standard rated supply when its Notice 709/3 was re-written in October 2011. Unfortunately, this change was not highlighted at that time, so HMRC rectified this by issuing Revenue & Customs Brief 02/13 on 22 January 2013 and confirmed it would only enforce the change from that date.

Hotels letting space for weddings, parties and externally catered events must now account for VAT at 20% on the hire charge and include VAT on quotes. The change does not affect deposits and pre-payments taken before 22 January 2013, but any balance payable after that date will be subject to VAT. Therefore it is essential to contact customers urgently to discuss any price increase you may be forced to impose.

Nick Warner, Partner
nick.warner@uk.pkf.com

Look out for more tips from PKF's Hotels team in our next issue.

publications

Coming soon: Hotel Britain 2013

Released: April 2013

Published by one of the most long-established and reputable advisers to the industry, Hotel Britain is the definitive guide to the performance and prospects of Britain's hotel sector.

Know anyone who would like to recieve Hotelquarters? CLICK HERE to send us an email and we'll add them to our mailing list