

OakNorth Sector Pulse
May 2024

HOSPITALITY & LEISURE



OakNorth



Industry overview

Over the last six months to 30 April 2024, the hospitality and leisure industry demonstrated continued resilience, despite ongoing challenges from labour shortages (132,000 vacancies – 48% above pre-pandemic levels according to UK Hospitality), and inflationary pressure on rent, energy bills, and the cost of ingredients. In terms of operational performance, the sector continued to hold up, and the anticipated cut in the base rate later this year may ease some pressure on household disposable income. This, combined with economic growth could lead to higher levels of demand for UK hotels from both leisure and corporate guests. However, over the short term, new supply coming into the market and more muted demand could impact on occupancy levels. From an investment perspective, sentiment towards this sector remains positive, though liquidity has been sluggish as investors continue to face higher borrowing costs, and businesses have to refurbish existing stock to meet energy efficiency and fire standards.

Unfortunately, industry calls for greater policy interventions went unanswered in the Spring Budget, though the freeze on alcohol duty until February 2025, was seen as a positive step for the industry. Our outlook for the sector over the next six months is cautiously optimistic – we have seen from the experiences of our customers that many hoteliers, restaurateurs, and pub operators continue to thrive and are finding new opportunities amidst ongoing market challenges – but the industry faces very real, in some cases existential, threats over the next six months.



Key trends of the last six months

Challenges in the capital

In December and January in particular, operators in the capital suffered from the threat of Tube strikes and mass protests against the war in Gaza, at a time when they would usually see a seasonal boost from festive parties and new year celebrations. Some of the businesses we've spoken to in recent months said they saw up to 25 per cent less revenue than they'd forecast in the final quarter of 2023 due to this disruption.

▼
-25%

Less revenue for businesses forecasted for the final quarter of 2023 due to this disruption

An unexpected boost for hotels

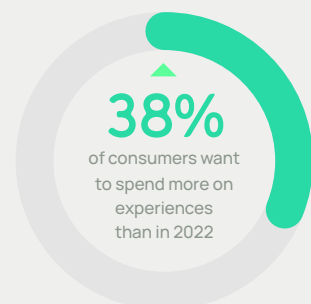
According to the Home Office, over 62,300 people were granted refugee status or other protection following an asylum application in 2023 - the highest number of people granted since records began (in 1984). An unexpected benefit of this for hospitality and leisure industry is that £3.2bn of the UK's aid budget – a £600m y-o-y increase – is being allocated towards paying for hotels for almost 46,000 asylum seekers. London hotels were the leading beneficiary of this, followed by the West Midlands, East of England, South East, and North West. However, it is important to realise that this tailwind will end at some point, which may lead to an oversupply of rooms.

▲
£3.2bn

of UK's aid budget allocated towards paying for hotels for 46,000 asylum seekers

An eye on the experiential

Post-pandemic throughout 2022, we saw an increase in consumers seeking out experiences. While this trend slowed slightly in 2023 because of the cost-of-living crisis, the last six months has seen it return with a vengeance, with more than a third (38%) of consumers now wanting to spend more on experiences than in 2022 (source: EY). We have seen first-hand the positive impact this has had for customers of ours such as Inception Group and The Alchemist.





In times of economic turmoil, most lenders tend to retrench from the SME lending market, with sectors such as hospitality and leisure often being one of the first high-street banks pull out from. However, the insights in this report demonstrate why it is so important that banks don't make broad-brush assumptions about businesses within a sector. The experience and performance of a hotel, restaurant, bar, or pub in the capital for example, will have varied significantly to those in other parts of the UK, and even businesses within the same sub-sector, such as conference and business hotels vs those catering to tourists, have seen notable variations in demand. No matter what challenges the sector faces, there will always be businesses that will thrive, which is why we absolutely have the appetite to continue lending, and we've been proud to support a range of businesses across the sector over the last six months."

Ben Barbanel
Head of Debt Finance at OakNorth



Sector spotlight



BEAVERBROOK

An award-winning countryside hotel

In January, we provided a £52m loan to Beaverbrook, the award-winning and quintessentially English country house estate nestled in the heart of the Surrey Hills. The capital from OakNorth will help refinance existing facilities, and fund future growth.



THE ALCHEMIST

An experiential cocktail bar

In February, we provided a £15m loan to creative cocktail bar and restaurant group, The Alchemist, to support the roll-out of new sites and refinance existing debt. Founded in Manchester in 2010 and backed by leading private equity firm, Palatine, the group has successfully scaled to 23 sites across 12 major cities, including six in London, three in Manchester, and three across Scotland, in addition to opening its first overseas site in Berlin last year. With its London Victoria site having opened in February 2024, the business' reputation for mastering the dark arts of "molecular mixology" has won it numerous industry awards, including most recently, 'Best Drinks Offer' at the 2023 Publicans Awards.



STICKS'N'SUSHI

A pan-European restaurant group

In February we completed a £22m loan to Sticks'n'Sushi, a 30-year-old restaurant group specialising in sushi and yakitori, with 27 restaurants across Denmark, the UK, and Germany. The group has recently been acquired by McWin Capital Partners, which focuses on the food service and food technology sectors. With OakNorth's and McWin's support, the group will continue to open new restaurants across the UK.

Outlook for the next six months

Improving consumer sentiment

So far this year, inflation has fallen, wage increases have held up, and c.27m people saw their national insurance contributions cut from 10% to 8% from April, putting up to £450 more in their pocket this year. Household finances for the majority of those of working age have generally improved and we expect to see this leading to an increase in positive consumer sentiment from June.

▲
£450

National insurance contributions cut by 2% resulting in £450 more for up to 27m people

Dashed hopes of interest rates cut

Despite the improving consumer sentiment, hopes of a summer cut to interest rates have been quashed and pushed out to slightly later in the year, with the Bank of England recently warning that inflation must be squeezed out of the economy beforehand.



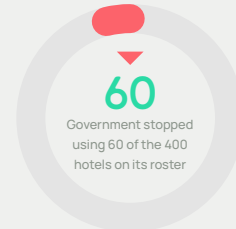
A summer of sport will give the pub sector a boost

Spurred by major international sporting events including the Euros, T20 World Cup, and the Olympics, pubs in particular are expected to see a boost during the summer, even if the British weather doesn't end up being particularly good!



Immigration impact

With mounting political pressure to reduce aid spend on accommodation for asylum seekers, it is possible that we will see numbers start to wane progressively over the next six months, with government having already announced in January that it has stopped using approximately 60 of the 400 hotels on its roster.



Business rates relief

If they win the next election, the Labour party has promised to replace business rates with a system of "business property taxation" to level the playing field between high-street businesses and online retailers. This is something we will be monitoring closely over the next six months as we move closer to the general election.



Get in touch with the team at questions@oaknorth.co.uk or visit oaknorth.co.uk for more information.