

OakNorth Sector Pulse
November 2024

HOSPITALITY & LEISURE



OakNorth



Industry overview

Over the last six months to 31 October 2024, the hospitality and leisure industry continued to demonstrate resilience, with operators thriving during the summer months that brought warmer weather and longer days.

Following this however, the first budget from Labour government brought new challenges for the sector, with employers facing a rise in National Insurance contributions (NICs) and a reduction in business rate support. UK Hospitality, the leading trade body, has stated that these increases to employer NICs and higher wages will add 10% to employment costs per person and £3b to the sector's annual tax bill, with an overhaul of business rates for firms with a rateable value above £500,000, likely to significantly impact large pubs.

International investors and private equity players continue to actively target high-potential or distressed assets within the UK pub, bar, and restaurant sectors. With inflation remaining at 2% since May, pressure on consumer spending has started to reduce slightly but the Consumer Sentiment Index demonstrates there are still ongoing concerns around the cost-of-living crisis.

Furthermore, advances in technologies continue to fuel the evolution of the hospitality industry. Services such as contactless check-ins have become increasingly common, with operators using these techniques to improve operations and customer experience. Operators are keen for tech to assist staff rather than replace them, with this hybrid approach allowing operators to boost efficiencies without compromising on quality and replacing valued staff.

Key trends of the last six months

The Taylor Swift effect

In addition to the UK's traditional social summer events, such as Glastonbury, Wimbledon, and the Proms, additional major events such as Taylor Swift's Eras Tour, the Euros, and the Paris Olympics, helped boost the hospitality sector. For example, [data has shown](#) that hotel prices increased dramatically during the Eras Tour, with UK cities such as Liverpool and Edinburgh seeing a 115% and 84% surge, respectively.

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115% Liverpool hotel prices surged 115%

▲
84% Edinburgh hotel prices surged 84%

Consumers remain cautious

According to [ONS figures](#), as of September 2024, over half (52%) of UK adults reported a rise in their cost of living compared to the previous month. This has prompted consumers to reduce how often they go out, [with recent](#) data revealing just under half (46%) of people plan to cut down on discretionary spending in order to save money. As a result, [restaurants have introduced a greater number of promotions](#) to help attract cost-conscious customers.

46%
of people reduced discretionary spending to save money.

Asylum lodging continues to boost hotel occupancy

The UK is currently grappling with a backlog of almost 120,000 asylum cases, resulting in the ongoing need for hotel accommodation. [New figures](#) show that the number of asylum seekers being housed in hotels is 29,585, down from a peak of 56,042 in September 2023. In addition to providing an unexpected revenue stream, the arrangement continues to help maintain occupancy levels, particularly for hotels in less frequented areas, effectively offsetting potential revenue losses under normal circumstances. Given Labour's pre-election pledge to reduce the amount of asylum seekers being housed in hotels, and clear the processing backlog, we'd expect the number to come down slightly in the months ahead.

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Further pressure on profits

Despite higher topline growth, hospitality operators have experienced a squeeze in profits. With no relief on business rates and an increased contribution to the National Living Wage from April 2024, many operators have struggled to manage costs. These factors, coupled with continued cautious consumer spending, have resulted in large firms, such as Fullers, Stonegate Group, and Premier Inn's owner, Whitbread, [admitting staff jobs are now at risk](#).

£ ↑
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The UK's hospitality and leisure industry continues to face numerous challenges, from staff shortages to the cost-of-living crisis, but despite these headwinds, we see businesses seeking opportunities to expand and further enhance their portfolios. Businesses such as Rocket Leisure continue to build a loyal and engaged customer-base via a unique proposition of live music almost every night, that attracts over 6,000 customer each week. Our recent loan to the firm will enable the business to enhance its financial strategy, and continue growth through new opportunities. The insights from our second Sector Pulse focusing on these paramount sectors demonstrate that while the summer months brought a welcome temporary boost for many, challenges remain. Last year, the festive season and new year celebrations were impacted by the threat of Tube strikes and mass protests against the war in Gaza, so operators will be hoping for a calmer and less disruptive period going into 2025."

Ben Barbanel
Head of Debt Finance at OakNorth



Sector spotlight



A leading independent hotel management business

In May, we provided a £19.5m co-loan, alongside real estate funding specialist, ASK Partners, to independent hotel management business, Capiion Hotels Group. The co-loan will be used to acquire and refurbish a nine-storey, Grade II listed, vacant hotel in Paddington, and convert it into a new 80-room boutique upscale hotel.



Award-winning private investment firms

In July, we completed a £45.7m loan to investment firms, Veld Capital and Maya Capital, to support the development of a major new hotel at 160 Blackfriars Road. OakNorth's expertise across both property development and SME trading deals, meant it was able to tailor a facility that will enable Veld and Maya Capital to refinance existing debt on the site, fund the development of the hotel, and cover the initial costs of operating it.



A trailblazing hospitality firm famed for live music

In November, we provided a £6.4m loan to Rocket Leisure, a trailblazing hospitality business celebrated for its incredible live music events and outstanding hospitality, to refinance an existing facility, acquire the freehold on its Venn St site, and expand with additional future sites.

Outlook for the next six months

Long-lasting labour shortages

Latest [ONS figures](#) show 95,000 vacancies remain in the hospitality sector, emphasising the need for policies to further support employment. The recent increases to employer National Insurance contributions announced in the Autumn Budget, could also exacerbate concerns for hospitality employers, as higher employment costs may translate to higher consumer prices, potentially fuelling inflation and slowing wage growth further.

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Casual dining shows signs of recovery

Despite the UK's casual dining sector still grappling with cautious consumer spending, the sector shows signs of recovery, [with a 1.7% increase in the number of outlets over the past year, reaching 5,167 venues](#). This growth reflects measured optimism among operators, although dining-out volumes remain below pre-COVID levels, suggesting that while consumers are visiting less frequently, they are spending more per visit.

▲
1.7%

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Squeezed middle

Operators in the UK's hotel mid-market are set to continue underperforming their peers positioned at the bookends of the sector, with budget locations and luxury experiences continuing to perform well. For example, [luxury sites have continued to lead the market](#), with Edinburgh standing out as a top performer, recording a 14.4% year-on-year growth as of August 2024.

▲
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An increase in M&A

Top hotel executives believe acquisition-driven growth is expected to accelerate in 2025, highlighting a positive outlook for investors. [Recent figures show](#) that investment in the UK hotel market is expected to grow, with over half (59%) of investors believing it will increase significantly over the next five years.

▲
59%

of investors believing it will increase significantly over the next five years.

Growth of competitive socialising

The competitive socialising sub-sector has seen rapid growth in recent years, with the [UK experiencing a 38% rise](#) in these type of venues since 2018. With more consumers attracted by in-person experiences and fun interactions, firms such as Flight Club, Bounce, Fairgame, and the OakNorth funded, F1 Arcade, will be a growth area we'll be keeping a keen eye on over the next six months.

▲
38%

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