



Horwath HTL™

Hotel, Tourism and Leisure

Special Market Reports

Issue 2 - Ireland

IRELAND - COUNTRY FACTS & FIGURES - 2010

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|-----------------------------|-----------|-----------------|
| Population | | 4,670,976 |
| Urban population | | 62% |
| Rate of Urbanization | | 1.8% |
| Major cities | Dublin | 1.2 million |
| | Cork | 500,000 |
| | Galway | 200,000 |
| | Limerick | 180,000 |
| | Waterford | 100,000 |
| GDP | | \$172.3 billion |
| GDP Growth | | -1% |
| Consumer Price Index growth | | +2.7% |

IRELAND - HOTEL FACTS & FIGURES - 2010

| | |
|-------------------------|--------|
| Total Registered Hotels | 886 |
| Total Rooms | 59,298 |
| Occupancy | 59.7% |

INTRODUCTION

Despite the Global economic crisis, Ireland remains an attractive location for business and investment.

This is due to its low corporation tax rate and administrative barriers. According to the 2011 World Bank and International Finance Corporation report, Ireland ranks 9th out of 183 economies in terms of ease of doing business and 5th in terms of protecting investors. There are many positive aspects in setting up a business in Ireland, but as with all business transactions there are also issues that one needs to take into consideration.

Tourism is Ireland largest indigenous industry and investing in this sector remains attractive. The industry currently provides employment for over 200,000 people and is contributing in excess of 4% of GNP despite the challenges that it faced over the past 2-3 years.

Following three years of decline Horwath HTL's monthly review indicates that in 2011 both occupancy levels and revenues per room have increased for hotels of all star rankings in Ireland. This shows that the market is starting to recover and indicates that the contribution of the Irish hotel sector to the economy is increasing.

POSITIVE FACTORS

According to research conducted by Horwath HTL Dublin, the outlook on Irish tourism and hospitality industry are positive: 70% of hoteliers expect occupancy to increase; 50% of hoteliers expect room rates to increase; while only 10% expect a further decline in 2011.

A significant positive factor in running a business in Ireland is its low corporation tax rate of 12.5% in comparison to other European countries like Germany (15.8%) and France (33.33%). Despite pressure from other EU member States, the Irish Government has made it clear that they are committed to it and do not intend to change the rate of tax.



The Irish Government's commitment to the tourism and hospitality sector is reaffirmed by the recent policy decision on VAT.

With effect from July 2011 (until December 2013), VAT on certain goods and services VAT has been decreased to 9% from a previous rate of 13.5%. The new rate applies to restaurant and catering services, hotel and holiday accommodation and various entertainment services such as admission to tourist attractions.

This is a positive measure especially for the hotel and catering industry as the prices now become more competitive. Employers' PRSI contributions have also been reduced and this will reduce the business tax liability even further.

Ireland has recently attracted some positive publicity following the visits of Her Majesty Queen Elizabeth II and US President, Barack Obama, in May 2011.

Additionally, the recent success of Irish golfers in the British Open (Darren Clarke) and US Open (Rory McIlroy) competitions has generated huge positive publicity for the country. It is hoped that interest in Ireland will increase even further, attracting more visitors and subsequently boosting the tourism business.

Irish laws are quite liberal towards trade and industry. There are no restrictions against acquisition of majority holdings by foreign interests in Irish companies or against foreign ownerships of Irish businesses or Irish real property. This is a favourable factor particularly for those wishing to enter the Irish hotel industry, as there are limited restrictions to entry.

There has been significant investment in capital infrastructure in recent years. As a result all major cities are connected by motorways, improving accessibility. Major airports are located in Dublin, Shannon, Belfast and Cork providing excellent connectivity with the UK, Europe and US.

This is an attractive factor for prospective tourists and will contribute to the development and growth of business relations.

The educational system in Ireland is well recognised across Europe. Irish student community consists of 73,000 undergraduates and 18,000 postgraduate. With a graduation rate of 43.9% Irish universities provide highly skilled and educated graduates, ready to enter employment. Skilled workforce is a significant factor for any business and Irish workforce has earned a good reputation across Europe.

CONCERNS

Despite the positive expectations, the hospitality sector has experienced significant downturn. Visitor numbers are down significantly since 2008 with the higher decline being experienced from the UK market, our main target market. There are also declines in visitor numbers from our other key source markets, the US, France and Germany.

With the decrease in visitor numbers and the strong competition between hotels, room rates have been under immense pressure for the past 3 years.

Hotels are reporting an increase in operating costs, which include rates, insurance, food & beverage and general overheads. High telecommunication and landline costs in Ireland can affect the bottom line for any new business, Ireland ranks as the 8th most expensive location of 13 countries benchmarked for business calls and the 4th most expensive for mobile calls.

Another concern is a high labour cost, despite its decline in recent years. Ireland has the 5th highest net wage level in the OECD 28 and its 35% above the OECD 28 average. Ireland also has the second highest statutory monthly minimum wage of €1,462 euro per month. To prospective new hotel operators such costs may represent a barrier to entry.

OPPORTUNITIES

As an English speaking country with a low corporation tax rate, Ireland continues to attract major Multinational Corporations. Dublin's International Financial Services Centre (IFSC) is home to Multinationals from twenty separate countries. Some marquee companies with European Headquarters in Dublin include Facebook and Google.

Whilst the advantages to the Hospitality market of having a large concentration of Multinationals in the capital are obvious, Ireland's high quality tourist infrastructure, which has been developed over the last decade provides the opportunity to leverage tourism countrywide.

The upgrading of the county's road and rail network, which now links Irelands major tourist Cities and Regions with high quality infrastructure, gives visitors to Dublin greater scope to explore Ireland with ease.

From an investor point of view, property prices, particularly for commercial properties have been steadily declining since 2008. Recent market reports indicate that the peak-to-trough decline in capital values for commercial real estate is c63%, after further declines in the first half of 2011. The lack of debt finance and uncertainty surrounding rent review mechanisms (due to Government proposals) are overhanging the market.

For investors looking to enter the Irish hospitality market there are a number of distressed hotel assets of varying sizes and classifications on the market, with more set to follow. The State run National Asset Management Agency (which has taken over loans from the country's banks) is a major player in the hotel market and has acquired loans on 87 Irish Hotels. Lloyds Banking Group, which is winding down its Irish banking operation, also has a significant hotel portfolio on its books.

It is estimated that there are currently over 65 hotel assets in receivership – representing 12% of Irish hotel stock. Many of these are blue-chip assets and will come to market over the coming 3/5 years as NAMA and the banks seek to find buyers. Many of these hotels will have been built in the past 10 years and would have an high specification and fit-out. This developing situation presents great value for prospective investors to purchase quality assets.

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