

# Lake District Hotel Report

## Autumn 2013



Produced by:

**ArmstrongWatson<sup>®</sup>**  
Accountants & Financial Advisers

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## Report Key:



**Guest Accommodation**



**Hotels**

# Welcome

Once again we have had a fantastic response to our hotel and guest accommodation survey and the results show that Summer was overall very successful with strong bookings going into Autumn.

I read an article that said the “recession was effectively over for hotels”, this was based on a survey of hotels in city centres across the country. It is certainly a bold statement and I don’t think it applies to the Lake District just yet. We’ve had some good weather over the Summer and this really helped the hospitality sector to bounce back after what was largely a disappointing 2012. The level of bookings, the room rates and margins achieved are all positive signs that there has been some recovery for hotels, but for most this recovery still seems somewhat fragile. We need to see all of these factors continue before we can call an end to the recession for hotel sector.

In terms of the businesses that responded to this survey, we had a good cross-section of accommodation from three bedrooms to 51 bedrooms. This gives a real insight into the Lake District hospitality sector as whole, but to make the results more useful to everyone I have provided the results for guest accommodation separately from hotels (as defined by Visit England).

Here are just a few highlights from the report:

- Occupancy levels for hotels in August were 85% and for September were 81%. Comparing these occupancy levels with the results from our last survey it shows that hotels are generating an average of £5,000 of extra income over the Summer in late bookings. I expect this trend towards later bookings to continue

- Bookings for October and November were strong at 73% and 65% respectively. These anticipated occupancy levels will increase with late bookings too
- The average room rate for hotels over the Summer was £97 and for guest accommodation was £119. These room rates are very good indeed. You would probably expect the hotel room rate to be higher than the guest accommodation room rate, but one quarter of the guest accommodation respondents were five star establishments – which significantly increased the average room rate.

These occupancy rates are very good, but there is still scope for them to be higher. At a recent Cumbria Tourism meeting a hotelier made an interesting observation about minimum stays at the weekend. In general, hotels have a minimum stay at the weekend of two nights, but the weekend day-tripper market in the Lake District constitutes a huge number of visitors. She had started offering one night stays in her hotel in a bid to convert some of these weekend day-trippers to overnight stays. I think this is a good strategy and will hopefully result in longer stays from them in the future and ultimately benefit the Lake District as a whole through a second day of activities and spending.

In this survey we also included a section on energy costs. On average, energy cost bills are now equivalent to 4% of sales. This is a significant overhead for hotels and guest accommodation alike and we can only expect these costs to continue increasing. Some hotels are looking to invest in energy efficient systems to reduce their energy costs.

In the next 12 months, 10% of hotels are planning on spending an average of £64,000 per hotel on energy efficient systems. Half of this investment will be financed by their banks. I would recommend that hoteliers always consider the full cost and savings from installing these systems and if you need finance then talk to your bank as soon as possible.

Obtaining finance for this type of investment can be difficult because banks can't always include the ongoing incentives received after installation when determining whether their lending criteria has been met. There are grants available too and the providers of these energy efficient systems usually have documentation on how to apply for them.

Looking forward as we move into the low season, many hotels find cash flow to be a problem. It's important to know exactly when cash flow will be at its tightest and by how much. Knowing the timing and the scale of the problem means that you can manage it and reduce the effect in a variety of ways:

- Using your suppliers credit terms in full
- Delaying overhead spends where possible
- Taking deposits on rooms
- Don't overstock
- If you have any account customers then make sure you get prompt payment
- Running offers to increase sales – even if these yield a lower margin

...and if this still isn't enough then you need to talk to your bank. Your bank manager will look more favourably upon an application for a temporary extension to your overdraft if you talk to them before the problem happens. They will want to see that you have explored all of the options listed above and understand how much you need and for how long.

The only way you can anticipate a cash flow problem and be ready for a discussion with your bank is by forecasting your cash position. At this time of year I help a lot of my clients doing exactly that. If you need my help then please call me.

I hope you find this report interesting and look forward to your participation with future surveys.

**Richard Andrew**

# You and Your Hotel



## Visit England Classification and Star Rating



### Guest Accommodation



### Hotels



Average number of rooms



90% of hotels who responded to the survey had a three star rating or above, and 75% of the guest accommodation that responded had a 4 star rating or above. When you read this report please remember that the respondents represent high quality hotels and guest accommodation across the Lake District and this is reflected in the results.

# Occupancy - Hotels



## Occupancy Rates



July

83%



Aug

85%



Sept

81%

Cumbria Tourism Benchmark

74%

75%

71%

Armstrong Watson 2012 benchmark

84%

88%

82%

## Forward Bookings



Oct

73%



Nov

65%



Dec

42%

Armstrong Watson 2012 benchmark

79%

71%

60%

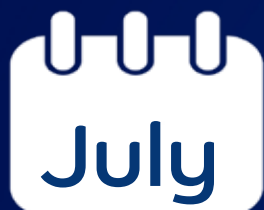
The occupancy rates for July 2013, August 2013 and September 2013 are very strong indeed. Comparing these with our Armstrong Watson benchmark from the previous year the overall occupancy rates for these months are relatively consistent with the previous year. However, the occupancy rate should be considered in conjunction with the average room rate achieved. High levels of occupancy can be achieved by reducing the average room rate. From my discussions with hotels I know that average room rates were significantly reduced in 2012 in order to increase occupancy levels.

The average room rate is discussed in further detail later in this report.

# Occupancy - Guest Accommodation



## Occupancy Rates



July

69%



Aug

72%



Sept

62%

## Forward Bookings



Oct

60%



Nov

38%



Dec

12%

Comparing these occupancy rates with the Cumbria Tourism Statistics, the Lake District occupancy rates continue to be considerably higher than the Cumbria Wide occupancy levels. This shows the strength of the Lake District "brand" over the outlying areas in Cumbria.

In our Summer survey we noted that the forward booking rates for July 2013 and August 2013 were 83% and 78% respectively. The actual occupancy rates achieved were 83% and 85% respectively. This shows that late bookings in August represented 7% of the occupancy levels achieved. These late bookings represent £5,000 of the average accommodation income received for August 2013 per hotel. This does not include the associated spend on drinks and food which would probably be in the region of £4,500 based on the averages achieved in August 2013. In total the late bookings represents average income of £9,500 for August 2013. Hotels need to consider their marketing and pricing strategies to ensure that they enjoy the full benefit of these late bookings and do not miss out.

# Room Rates



July

Average  
room rate



REVPAR

£78

£85

Average  
room rate



August

REVPAR

£87

£100

September

Average  
room rate



REVPAR

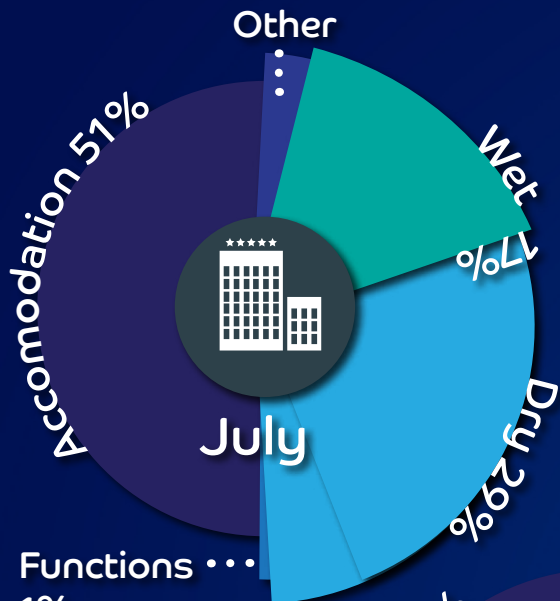
£75

£92

REVPAR (revenue per available room) is a measure which a lot of the hotels employ. It is similar to the average room rate, but instead compares the revenue from room sales with all of your available rooms. This shows how much each room is generating revenue, whether it is occupied or not. Again the REVPAR shows a marked increase on last year.

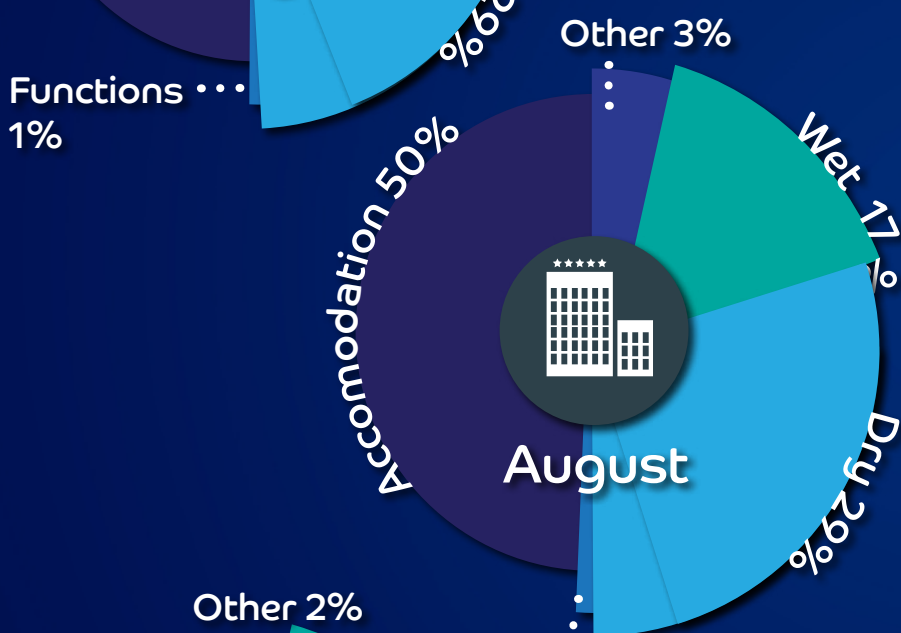


# Sales Mix - Hotels

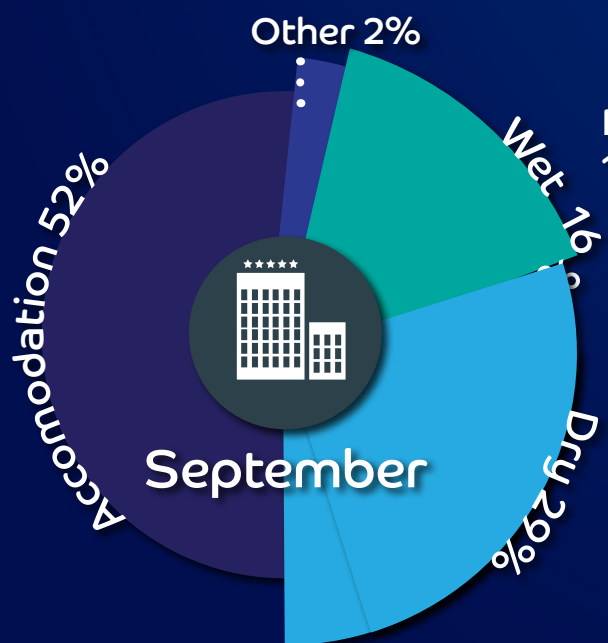


For every £1 spent on accommodation, **33p** is spent on drinks

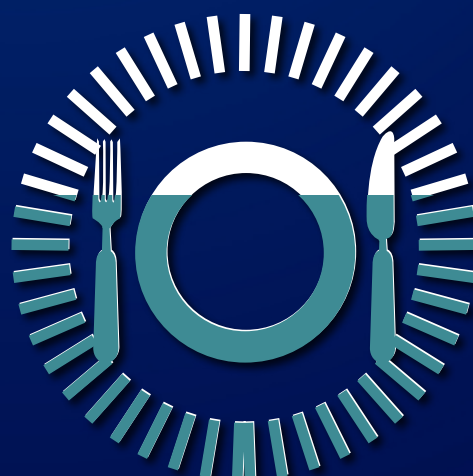
**66%**  
Wet Margin



**61%**  
Dry Margin



For every £1 spent on accommodation, **57p** is spent on food



The secondary sales from food and beverage continue to be an important part of every hotels' offering and represent 90p for every £1 spent on accommodation.

# Sales Mix - Guest Accommodation

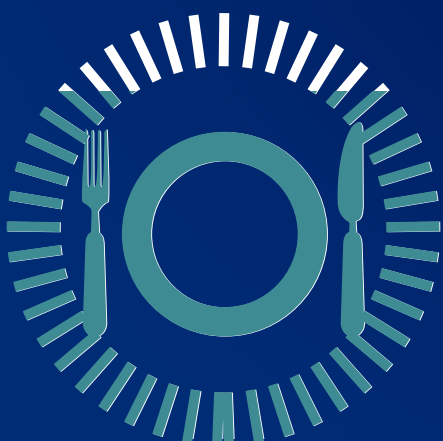


**68%**  
Wet Margin

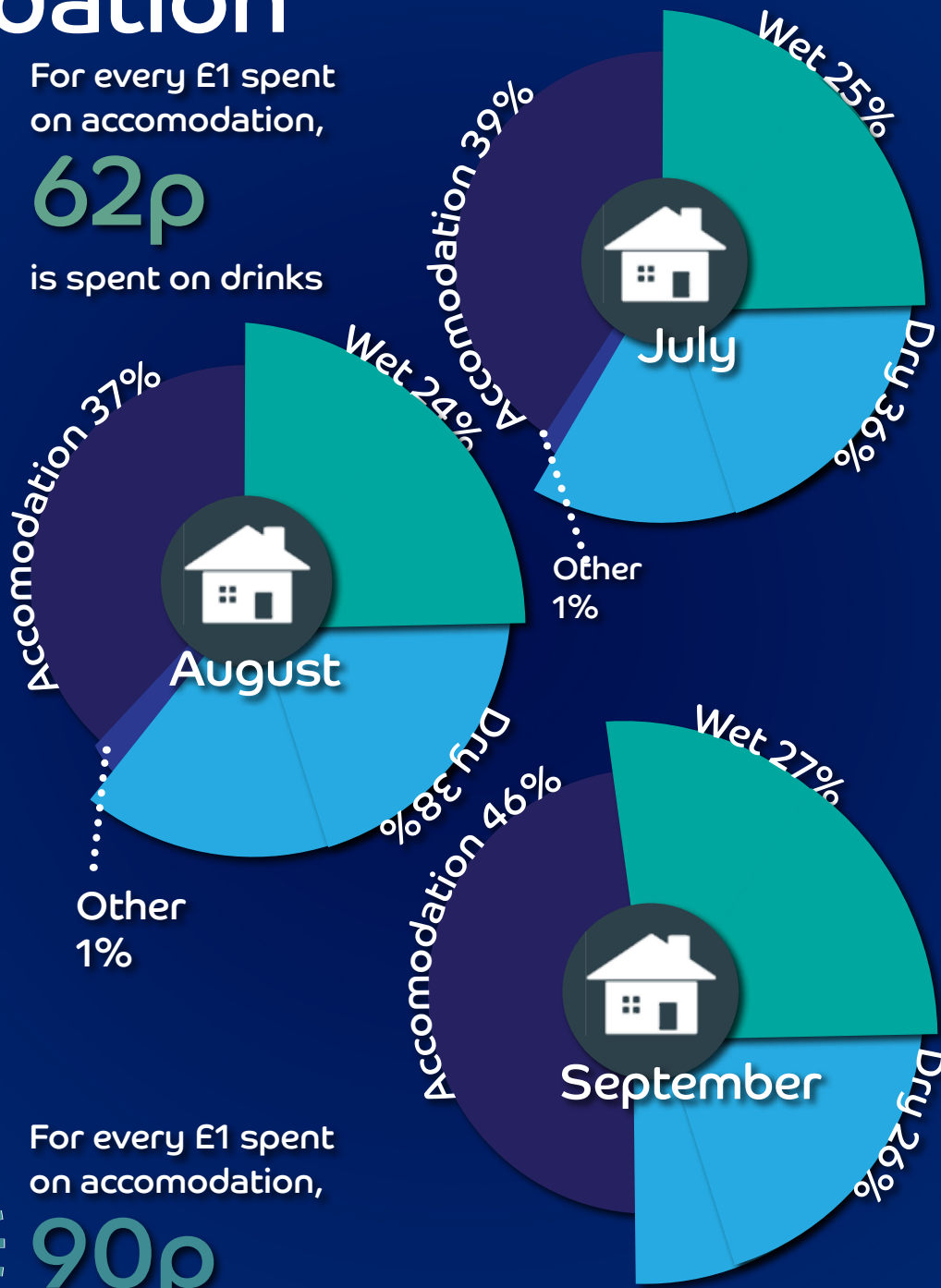
For every £1 spent on accommodation,  
**62p** is spent on drinks



**66%**  
Dry Margin



For every £1 spent on accommodation,  
**90p** is spent on food

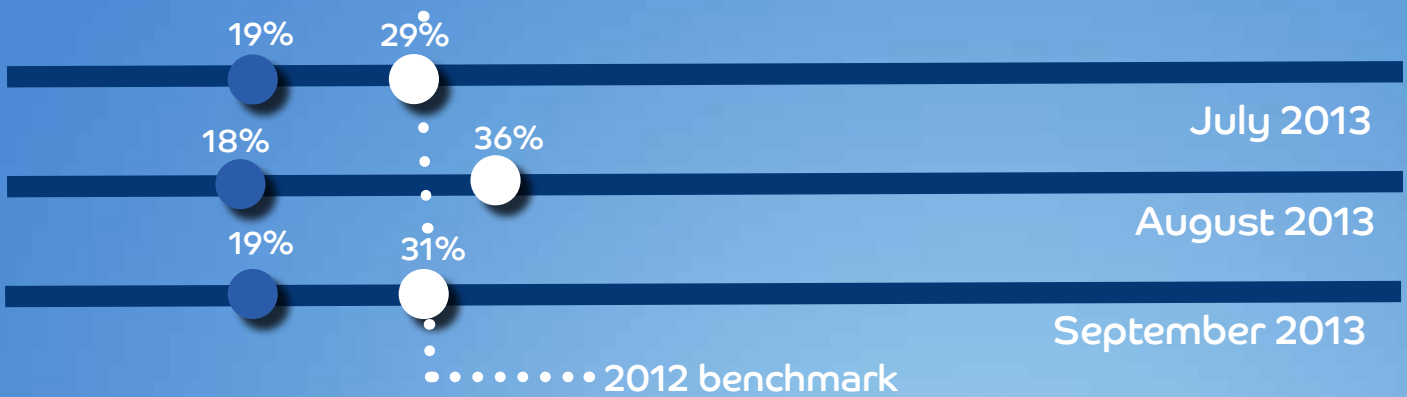


The guest accommodation shows even stronger levels of secondary sales because many of these establishments are well known destinations for food and drink and their accommodation can be seen as a secondary sale.

# Expenses



## Wages as a percentage of turnover for...



Wages costs as a proportion of sales has stayed relatively consistent over the periods July, August and September showing an average rate of 32% for the period. This compares with 31% in the previous year. The proportion for August shows an increase to 36%. Most likely this is a step in wages costs in order to service the higher levels of turnover experienced in this month.

## Wages bill by month

July 2013



August 2013



September 2013



# Expectations for 2013



It will be about as successful for my hotel as the same period in 2012



It will be more successful for my hotel than the same period in 2012



44%

It will be about as successful for my guest accommodation as the same period in 2012



56%

All respondents to the survey expect the current year to be as successful or more successful than last year. This is positive news for the hospitality sector and particularly the Lake District.

Hopefully this will help to redress some of the difficulties experienced last Summer and in previous years due to the weather and economic climate.

100%

# Renewable Energy



Energy bills for  
the last 12 months:



I'm likely to invest in the next 12 months in:



Electric car  
charging points



Biomass

I have already invested in:



Energy efficient  
heating systems

Energy costs continue to be a significant overhead for hotels and these costs now represent an average of 4% of the turnover for hotels and guest houses.

In the next twelve months 10% of respondents are intending on installing a biomass boiler with a further 10% intending to install electric car charging points. Electric car charging points have been used successfully by some hotels to differentiate themselves and attract "green" guests.

# Renewable Energy



← - - - -  
Average planned spend on renewable energy for the next 12 months

How will this be financed?



I am unlikely to invest in the next 12 months in:



Eco pool heaters



Electric cars on site



Hydro-electricity



Ground source/  
geothermal  
heat pump



Solar power



Wind turbines

Installing renewable or energy efficient systems has a number of benefits including driving down energy costs and differentiating your hotel to attract green guests. It's also an ethically sound decision for those hoteliers looking to reduce their impact on the environment

When considering investing in these installations you should always look at the pay back period in conjunction with these factors.

# Contact Us



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