



CHECKING OUT: Many hotels are struggling to survive in the provinces

Fall in occupancy to claim more hotel victims

BY SARAH BRIDGE

MORE casualties in the hotel sector are inevitable as high levels of debt and a decline in the business travel market continue to take their toll, warn industry experts.

But there are some positive notes, with London and budget hotels enjoying record occupancy levels.

Von Essen, owner of Cliveden in Berkshire and The Royal Crescent Hotel in Bath, was the most high-profile company in the sector to go into administration recently. But many other chains were struggling, said Christian Mole, hotel transactions executive director at accountancy firm Ernst & Young.

'A lot of hotel companies changed hands in the mid-2000s and many overpaid for assets,' he said.

'Once the market turned after the

credit crunch, companies could no longer afford the interest on borrowings so they had to restructure.'

Some, such as Alternative Hotel Group, Kew Green and Menzies Hotels, have successfully refinanced, while others such as Jarvis Hotels are still trying to do so. Others, including von Essen and a parcel of 42 Marriott-branded hotels backed by Royal Bank of Scotland, were unable to and had to call in administrators.

Mole said: 'Banks are trying to cut their debt exposures so companies need to get more money in from shareholders or accept more onerous financing terms.' The problem

is compounded by poor trading outside London as the sector struggles to get back to pre-recession levels.

'There is London and then there is the rest of Britain,' said Russell Kett, managing director of leisure consultancy HVS.

'There are bright pockets such as Edinburgh, but the provinces generally are seeing far slower recovery. Any business-oriented hotel in the provinces is probably struggling.'

Sir David Michels, former chief executive of Hilton Hotels and now of hotel asset management company Michels & Taylor, agreed. 'London is an island - occupancy rates are always very high, around 85 per cent,' he said. 'It's extraordinary how it bounced back from the recession, but the provinces aren't doing

so well. If you financed at the peak of the market and you're in the provinces, then you're in trouble.'

The problem is that many companies took on debt with a high loan-to-value ratio. While hotels generally ought to be able to make a profit on fairly low occupancy rates, when trading fell off some that had taken on high levels of debt started to struggle to pay interest and were unable to raise more money as property values had also fallen.

'More groups will breach their banking covenants, so more casualties are inevitable,' said Kett.

All eyes are now on Mint Hotels. The company has been put up for sale by Lloyds Banking Group and Scottish entrepreneurs the Orr family for about £550 million.