

CBRE HOTELS

**THE FUTURE OF  
DEMAND FOR  
THE DUBLIN  
HOTEL MARKET**

**CBRE**

# Tomorrow's Hotel: THE FUTURE OF DEMAND FOR THE DUBLIN HOTEL MARKET

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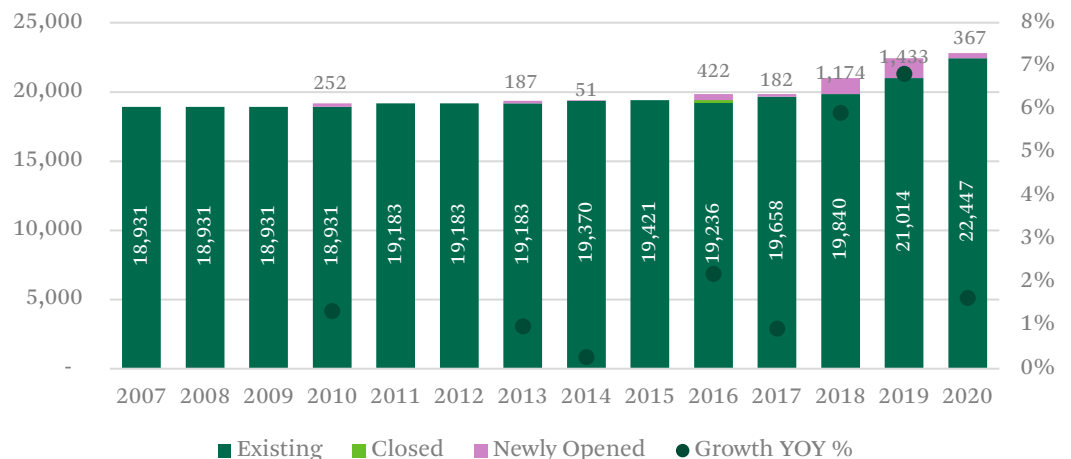
2020 can only be described as a tumultuous year for the hospitality industry globally and thankfully there is light at the end of the tunnel with the distribution of multiple vaccines in Ireland – albeit somewhat more slowly than what we would have originally hoped. In that context, we at CBRE have considered what the hospitality market in Dublin is likely to look like when economies re-open and people who prior to Covid-19 were frequent travellers, feel sufficiently comfortable to do so again.

One of the drivers for this research is to gauge what the appropriate level of hotel supply for Dublin is given what is under construction at present. We hope this will be of assistance to Dublin City Council in their determinations for future hotel applications. We have attempted to support all fundamental data points which drive our predictions also including data from reputable sources.

**VISITATION, CURRENT SUPPLY OF HOTEL STOCK AND HISTORIC CONTEXT**

What is the make-up of the tourism market in Dublin historically? Failte Ireland produce 'Key Tourism Factsheets' which detail the source of visitation and revenue for tourism in Dublin. The most recently available years (2015, 2017 and 2018) illustrate the importance of International visitor numbers to Dublin, providing for 76% of the visitor numbers to the city and 82% of the spend in both 2017 and 2018 (with domestic visitors, including Northern Irish visitors providing the balance). In 2015 International visitors accounted for 71% of visitors and 83% of the spend. (This data was unavailable for 2016). The crucial element is that international visitors consistently account for over 80% of the spend in Dublin.

**Chart 1: The Dublin Hotel Supply Evolution: 2007 - 2020**



At time of writing there are approximately 22,800 hotel bedrooms in Dublin of which approximately 12,500 are in the city centre. *Source: Failte Ireland, AM:PM, CBRE Research* While we have seen a number of new additions to Dublin’s hotel landscape in recent years, it is worth noting that it was not commercially viable to build a ‘ground-up’ hotel in Dublin during the Global Financial Crisis and Q4 2016 and up until very recently there has been very little new stock added to Dublin’s hotel bedroom count –the annualised growth rate of hotel supply in Dublin since 2007 is a mere 1.4%. It is also worth noting that approximately 500 bedrooms are coming out of the total Dublin hotel stock in the near term – namely the Beacon Hotel which will form part of an extended Beacon Hospital and also the Ballsbridge Hotel which is set to house a new US Embassy.

For the 12 months of the last ‘normal’ trading year – 2019 – Dublin boasted an occupancy of 82.1% (source: STR). In a sample of 35 European cities Dublin placed third in terms of occupancy behind only London and Amsterdam with the average for the 35 markets at 73.7% (source: STR). The most fascinating aspect of this is that of the city’s total supply detailed above, the STR sample for Dublin is approximately 17,000 bedrooms (representing 75% of the total market) of which just under 8,000 are outside of the city centre. It is worth reiterating that according to STR, Dublin is the third best performing market with respect to occupancy, however 46% of the sample that contribute to these occupancy rates are outside the city centre.

While this strong performance may come as no surprise to many, as Dublin has been a leading performer with respect to occupancy since 2014, this might help to illustrate the scale of the demand for Dublin in recent years and as cities fill from the centre out, it does demonstrate how under supplied the city centre has been for some time. This also poses a question – given Dublin has been so full in recent years, how many people who could not be accommodated in the city centre or the periphery of Dublin opted not to travel to the city or used alternative accommodation options such as Airbnb (which are now subject to considerably more stringent regulations than before and much of the stock has been removed from the short stay market). In this context it is not unreasonable to assert that Dublin clearly suffers from an under-supply of hotel accommodation (assuming normalised market conditions and the resumption of international travel, of course).

**WHAT IS THE SUPPLY PIPELINE FOR DUBLIN?**

As illustrated in Chart 1, between 2018 and 2020 the market saw just under 3,000 new hotel rooms with new brand entrants including Aloft, Hyatt Centric, Hard Rock, Locke and Moxy opening new hotels in the city. The fresh products in new emerging neighbourhoods of the city will continue to flourish and give record amounts of visitor’s variety and diverse experiences when visiting Dublin.

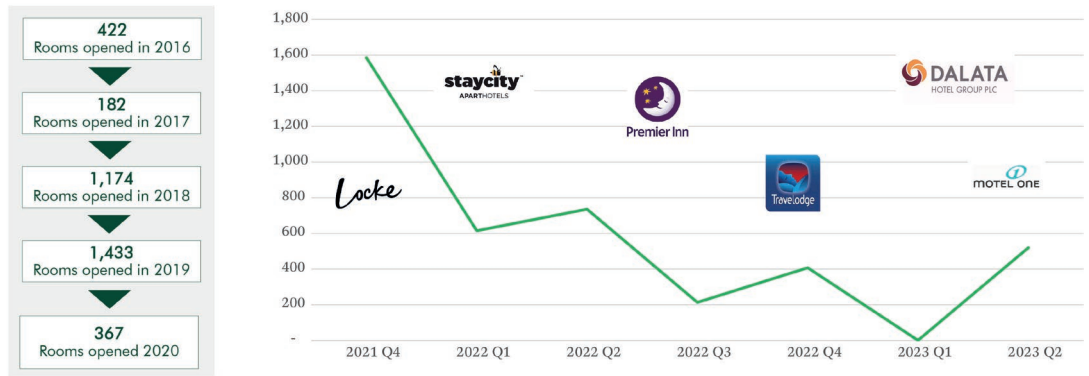
CBRE calculate that there are 4,075 hotel rooms currently onsite across the city and the level of new supply openings are estimated to spill into the early months of 2023 predicting hotel stock to reach just under 26,000 bedrooms – an overall increase of 16% from the existing supply. The wider economic landscape and the growth in the international corporate take-up is likely to play a big part in the need for this new supply as the market recovers and International and Domestic travel returns.



For the full year of 2019, Dublin placed 3rd of occupancy levels out of 35 European cities covered by STR at 82.1%. It is noteworthy that 46% of the sample in Dublin is outside of the city centre, highlighting the need for new stock in appropriate locations within the city centre.

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**Chart 2: Dublin Hotel Developments On Site**



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 CBRE expects in the region of 2,000 additional bedrooms - many of which have already been pre-let to international brands and are not yet under construction – will go on site in the short term.

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Following the emergence of Covid 19, a large number of prospective hotel developments in marginal locations have been shelved given the short-term challenges and the drying up of liquidity in the sector, which we believe is a positive for the market into the medium term.

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The pipeline has been impacted with considerable construction delays throughout the city and opening dates continued to be pushed back while Covid-19 restrictions remain in place.

**DEMOGRAPHIC TRENDS**

In 2019, Marc Coleman (economist and author) provided an insightful presentation to CBRE on the Irish population both historically and projecting into the future and we have included some elements from this presentation relevant to this subject matter.

In 1841, the population on the island of Ireland was approximately 8m which was about 62% of the population of England (and our land mass is approximately 62% of that of England). Following the famine, Ireland suffered such a population decline that it is relatively very low in population to that of its peers in Europe. According to the World Population Review, Ireland ranks 139<sup>th</sup> in population density at 71 people per kilometre – considerably less than the majority of wealthier western For reference, if the Republic of Ireland was as densely populated as the UK, there would be over 19.7m people living here.

Since the 1940’s, the population on the island of Ireland has been growing (from approx. 4.2m in 1936 to 6.6m in 2020) and according to Eurostat, Ireland’s population grew by 1.2% in 2020 - far faster than the EU 27 average of 0.2%. It is also worth noting that Ireland has one of the youngest populations in Europe which means it has one of the lower Old Age Dependency ratios relative to that of its European counterparts – and this will remain the case until at least 2045.

What does this mean? Ireland is coming from a very low population base following the horrors of the famine in the 1840s and is very much playing catch up. Indeed, Marc Coleman predicted in 2019 that the population of the island of Ireland will return to the population high of 8m by 2041.

**MACRO-ECONOMIC FACTORS**

The latest NTMA Investor Briefing Pack (January 2021), always a treasure trove of macroeconomic indicators, identifies Ireland’s many economic strengths in the context of our European peers. I very much recommend reviewing and for me the positive content raises a question - would it be reasonable to assert that the economic trends Ireland is beginning to demonstrate some of the benefits that come with sectoral and economic critical mass that Dublin heretofore could not facilitate? Set out below are some brief examples:

- Multinational corporate activity growth driven by pharma and ICT sectors have grown from under €30bn in 2000 to just under €160bn in 2020 (that is 530% growth in 20 years).
- Household debt to disposable income ratio in Ireland has dropped by over 100% in the past 10 years which compares to a fall of approx. 5% for the EU 19 (twenty times)
- Corporation tax receipts have tripled in the last six years
- Ireland is a leader in Computer Services with exports trebling since 2014
- Given the strength of Pharma, ICT and Financial Services etc in Ireland, the level of impact of Covid on employment earnings is the 3rd lowest in Europe with high skilled, high wage employment growing strongly in Ireland which has provided a stabilising effect (and also driving considerable growth in household savings)

What does this mean? The factors that drive long term domestic consumer confidence appear stronger in Ireland relative to its European competitors. Along with forecasted growth in population, domestic demand should prove stronger in Ireland than in the past, which will drive domestic demand for hotel accommodation in Dublin and across Ireland.

**CORPORATE ACTIVITY IN DUBLIN**

While all of the above provides great confidence as to Dublin’s bounce-back-ability, it is the activity from multinational office occupiers in recent years that indicates to us that future demand for Dublin is highly encouraging.

As at year end 2020, there was just under 2.8m sq. m of office stock in Dublin city centre. This represents an increase in capacity by 14% since 2010. In that context, the level of space take-up by new multinational occupiers since 2014 is nothing less than exceptional. Office occupation in Dublin has averaged at 300,000 sq. m per annum in the five years between 2014 and 2019. This is the equivalent of 10% of the entire city centre stock per annum. What is most interesting from a hotel perspective is the makeup of those occupiers. The top 10 ICT employers in Dublin have increased their committed and occupied space by 259% since 2014. Together they account for approximately 451,000 sq. meters or 16% of the overall market. These employers include Google, Facebook, LinkedIn, Salesforce, Amazon, Indeed, Twitter, Intercom and Zendesk and we understand from media reports that Tik-Tok will be joining them. It is worth noting this is only the top 10 ICT employers. What is most significant is that of the space committed to by these multinationals, 250,000 sq. m is not yet occupied and this will deliver an estimated headcount of just under 20,000 and a doubling of their footprint in Dublin. For clarity this only relates to the top ten tech employers in the city and excludes Brexit relocators which have accounted for approximately 50,000 sq. m over the past 3 years.



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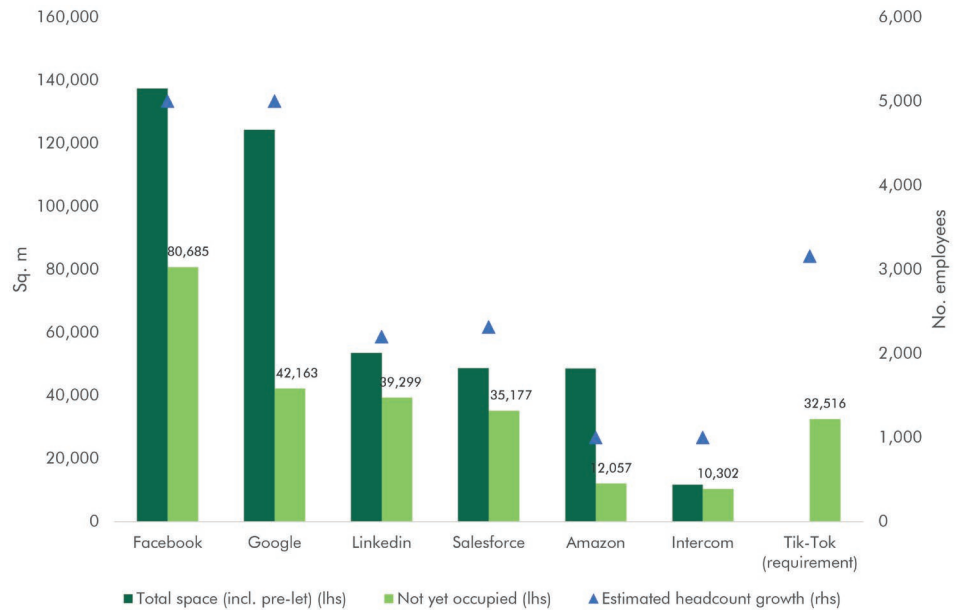
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**Chart 3: Top 10 Tech Firms in Dublin: Total Footprint – Existing and Pre-Committed**



While Covid may result in some long term changes to the rate of square meters per employee in modern office accommodation, what is encouraging for the hotel sector is that the make-up of ‘office-based’ employers is increasingly international in nature and as such more likely to require hotel accommodation by the international nature of their operations. It is these occupiers that will drive corporate demand to the Dublin hotel sector into the future.

From an infrastructural perspective it would be remiss to ignore the activity at Dublin Airport. Prior to the emergence of Covid-19, Dublin Airport was the only European International Airport actively constructing a new runway which has the potential to increase the capacity from approximately 35m to near 60m passengers. This provides scope to increase the pre-Covid 200+ routes at the airport. By 2019 Dublin was the 5th best connected European airport to North America and had also opened direct routes to China and one would hope that once international travel resumes, most of these routes will reopen.

**WHAT WILL THE LONG-TERM IMPACT OF COVID ON CORPORATE TRAVEL BE?**

This is not an easy question to answer, however we did unearth a fascinating report for the airline Industry by IdeaWorksCompany.com which undertakes a very logical approach to answering it. In their analysis corporate travel is broken down into 7 categories – set out below with their respective proportion of corporate travel in brackets:

1. Sales and securing clients (25%)
2. Commuters by air (5%)
3. Intra-company meetings (20%)
4. Support of existing customers (10%)
5. Technical support, equipment and IT (10%)
6. Conventions and trade shows (20%)
7. Professional services – clients and research (10%)

Given the disruption caused by Covid and the corresponding acceleration of communication technology, it is clear the volume of corporate travel will be impacted, and the conclusion of the Idea Works Company is that overall corporate travel may reduce by between 19% and 36%.

While the above pertains to air travel, the impact for hotels may be less severe – while corporate travellers may fly less frequently, it is possible they may be more inclined to cluster meetings and purposes into fewer but longer trips, however the extent to which is very difficult to quantify.



**WHAT DOES ALL OF THIS MEAN TO THE FUTURE OF DEMAND FOR HOTELS IN DUBLIN?**

To attempt to frame all of the above into a cohesive thesis and for ease of reference we summarise our key points with some additional commentary:

- Based on historic levels of travel and visitation Dublin is predominantly an international destination which is fundamentally undersupplied, particularly in key locations in the city centre. For hotels to be successful, they need profile/visibility, be highly accessible and be in reasonably close proximity to both leisure and corporate demand generators – there are a number of these locations in Dublin which require new hotel presence over the medium term and should be considered favourably by the determining authorities. Equally, locations that do not serve hotels as per above will require more careful consideration.
- Dublin is the capital city in one of the least dense modern economies in the world, albeit growing at a relatively faster rate than the majority of other European economies with an increasing proportion of jobs that are higher skilled in nature
- Tourism Economics predict visitation levels in Dublin will return to 2019 levels by 2024; on this basis the disruption cause by Covid-19 is likely to be short term in nature
- Economically, Ireland has performed better than the rest of Europe over a number of years with strong growth in high skilled and high earning employment and now with record levels of household savings which should fuel domestic leisure demand in the near term
- Dublin is benefitting from the ‘cluster-effect’ in the pharma, financial services and ICT sectors and is fast becoming a global hub in each case. Also, Dublin is also one of the preferred cities for international companies looking to relocate following Brexit
- The benefits from the recent record levels of office take-up by multinational companies, which provide the lion’s share of corporate business to Dublin hotels, has yet to be fully seen by the Dublin hotel market with some significant office campuses still under construction



If the Dublin hotel market is split approximately 50:50 between corporate and leisure business (source: Hotstats), a 19% - 36% decline in corporate business equates to a 9.5% to 18% fall in hotel rooms business, assuming no change in the population and volume of travellers. However, it is clear that the capacity for Dublin is growing substantially in both leisure and corporate sectors. The growth in leisure will come through population growth and returning connectivity from global markets and corporate business will exceed previous levels. Particularly given the scale and nature of multinational occupiers taking a greater share of the Dublin office market. We assert that any reduction in corporate travel will be more than offset by the greater footprint of international businesses active in Dublin given that the top 10 technology employers will see their footprint in Dublin more than double in the next 24 months.

While the next two years are likely to remain considerably challenging for hotel operators, the long-term prospects for growth in the Dublin hotel sector are there for all to see. CBRE Hotels Ireland are the long-time leader in hotel advisory services in Ireland, if CBRE can assist you in any way, please do not hesitate to contact us.

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