

COVID-19 should be the catalyst to drive a revolution in the UK budget hotel sector

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The fallout of the Travelodge CVA is a turning point



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The UK budget hotel sector has come under the spotlight as of late, during which COVID-19 has inflicted severe damage onto the hospitality industry on an unprecedented scale. But, as is the case across many sectors, the virus has not been the catalyst, but merely the accelerant of wider pre-existing trends.

Consumers have been becoming increasingly discerning in their choice of products and services, prioritising flexibility, value and quality long before the pandemic brought these qualities back to the forefront. This changing behaviour has transformed the residential sector as a whole.

For example, student accommodation has evolved from dimly-lit flats to modern design and service-led offerings, while the care-home market has transformed from dated and

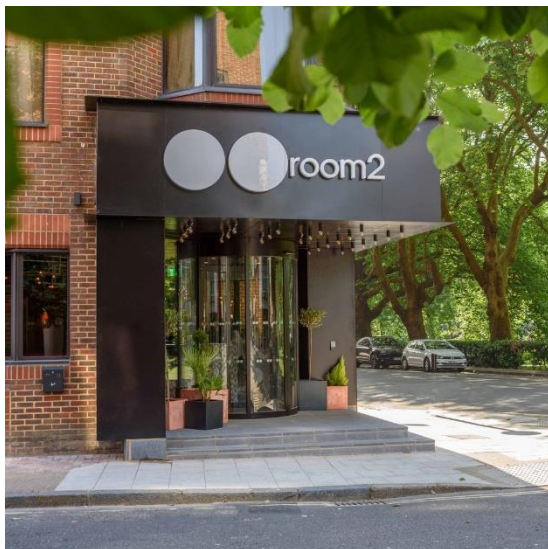
functional buildings with communal bathrooms to the fit-for-purpose, luxury schemes with communal amenities available as standard today.

Yet within the UK budget hotel space, which accounted for 30% of UK hotel investment activity by room last year, choice remains limited. The market is dominated by a few large players, who are unable to pivot quickly in light of a changing economic landscape and who offer similar products which no longer reflect the needs of the modern traveller. Discerning guests of today are looking for offerings which add value in more ways than just a low price.

Consumers have more choice than ever with flexible phone contracts, airline bookings with pay as you go extras, and a plethora of restaurant takeaway options. Hospitality within hotels varies, but generally the service and product is standardised. Consumer customisation is in demand and here to stay.

As such, the market is ripe for disruption, and operators that can add more value for guests through improved design, experience and functionality will attract an increased number of guests willing to pay more – including even those who are on a budget.

A complex relationship



Landlords are starting to look to new operators as alternatives to traditional names

In this sense, the fall out of the Travelodge CVA is a turning point for the sector, representing the conversations across the hotel industry as investors reevaluate their long-term strategies. Investors more than ever need secure income streams, which means landlords are looking elsewhere to avoid being stuck with unfavourable reduced terms, and must think carefully about the types of operator to fit their risk profile.

Recent days have seen established hotel operators offering to step in to 'rescue' Travelodge landlords with similar offers. However, is the same product under a different logo the future? Where the model is fundamentally the same the tenant will be equally vulnerable to economic fluctuations and black swan events, and may be left breaching its covenants and leaving landlords facing uncertainty once again. Or, is this an opportunity to rewrite the rules for the sector, repositioning existing hotels to brands and models with greater resilience and longer-term potential?

In a post-COVID era, highly functional yet curated products are needed. For example, hotel rooms that add kitchens offer clearly differentiated value for guests by offering them control and flexibility over meals, whether for special dietary requirements, a tight budget, or for COVID restrictions. For the investor this model allows the hotel to achieve longer-term and more stable occupancy, vital in an uncertain world where demand shocks are frequent and wide ranging.

At room2, our apart hotel business model has responded well to the market fluctuations, as it benefits from a lean cost base, and is able to target a wider group of consumers who can stay for a longer length of time than typical hotel guests.

Earlier this year we launched our room2 lite product, created to tap into the budget hotel sector, and provide the successful 'homotel' product to the long-underserved budget market through a proven model of hybrid leases, low capex requirements and short refurbishment timescales. Reflecting its appeal as an alternative for landlords looking for long-term, sustainable income, we are in advanced negotiations with Travelodge and other landlords across the UK to convert to room2 lite.

COVID-19 has created a watershed moment for the entire economy – and for the hotel sector in particular. To guarantee secure, visible income, landlords must partner with operators who appeal to, and understand, the guests of tomorrow, and not just the guests of today. No landlord wants to be left behind, and there is now an opportunity to capitalise on changing consumer behaviour and usher in real change, for those proactive and astute enough to take the plunge.

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