Impact of BREXIT on the European Hotel Sector, by Russell Kett, chairman, HVS London

With the dust starting to settle following last week's historic EU referendum vote, with 52% of the UK voting to withdraw from the EU, a number of issues and opportunities are beginning to emerge.

From a political perspective, the UK government is slowly organising itself to initiate the formal process, commencing with the invocation of Article 50 of the Lisbon Treaty, but this is complicated by the Conservative Leadership elections, for which nominations close today. The new leader ? and Prime Minister ? will however not be known until 2 September leaving a summer of uncertainty whilst political manoeuvring will doubtless continue, not least by those who would really prefer the UK to remain within a somewhat watered-down version of the EU. For the moment, the leaders of the other 27 countries and the EU President himself are indicating that the UK cannot cherry-pick which ?freedoms' it wishes to retain, so it will be interesting to see if this position moderates over the coming two months ? some adjustment to the freedom of movement being the one aspect which could cause the UK to find a way to avoid exiting, as this would enable the freedom of trade and investment to remain as at present.

Whatever the ultimate outcome, there is clearly more advantage in a dignified separation rather than an acrimonious divorce, and slowing down the speed of change is understandable. It may also help to weaken the impact of a reduction in the UK's GDP over the coming year or two and help restore the rating agencies' views on the country's prospects. This could be destabilised, however, if the elections for a new Conservative leader and/or the internal wranglings within the Labour party precipitate an early general election this autumn, some 3+ years ahead of expectation.

So we are now experiencing an unprecedented level of uncertainty. And uncertainty fuels indecision. Indecision causes deals to slow down or even stop. If people aren't doing deals, business travel reduces. This then has an impact on hotel occupancy levels, especially in cities where deals traditionally get done, like London. So we can expect there to be a softening of demand for hotel accommodation in many locations within Europe, so long as this uncertainty prevails, to a greater or lesser extent depending on the location. Probably more so when this is coupled with new hotel openings which are already in the pipeline.

On the other hand, visitation to the UK is likely to be stimulated in the short term as the exchange rate suddenly makes the country more affordable, particularly for those from the US and the Eurozone. London hotels should be a particular beneficiary, so leisure tourism ought to balance out some of the losses from business visitors, at least in the short term.

From a hotel valuation perspective, each hotel will need to be viewed on its own merits in terms of its anticipated future trading potential. Each parameter of a hotel's value will need to be carefully reviewed ? banks thus far seem to be willing to continue lending to the sector, which is a good sign, but we need to watch out for the effect on interest rates; equity yields are likely to rise in the short term as investors factor in a level of uncertainty into their pricing; and time assumed to achieve a sale (the underlying premise of a market valuation) will increase, probably from 6 months to 12. In some European locations, therefore, we can expect to see downward pressure on hotel values in the short term as the market adjusts to this uncertainty, and a general slowing down of some transactions, albeit not their total cancellation. We remain cautiously optimistic that the European hotel sector will remain an attractive source of investment from those global investors who are interested in the medium to long-term growth perspective as well as knowledgeable intra-regional investors who are seeking to consolidate their ownership position in markets that they know well.
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