Pandox Q3 2021 Report

Wednesday, 27 October 2021

Opening Presentation

Anders Berg

SVP Head of Communications and IR

Thank you very much. And I would like to welcome you all to this presentation of Pandox's third quarter 2021. I am here with Liia Nõu, our CEO and also acting CFO for the time being, at least. In line with our tradition through this pandemic, we also have an external guest. Robin Rossmann, Managing Director, International at STR and as you well know by now, Robin represents a leading independent research firm focussed on the hotel market, and he will share STR's view on this market. And please remember that the views expressed by STR are completely separate from Pandox and that we offer this presentation only as a service to Pandox's stakeholders. And also note that Robin's presentation will be held after we have completed the formal earnings presentation, including the Q&A.

So, we will start with Liia and myself presenting a business update with financial highlights for the third quarter, followed by Q&A. And then after that, Robin will do his external hotel market presentation. Next page, please. And I now hand over to Liia Nõu, CEO of Pandox.

Business Update

Liia Nõu

CEO, Pandox

Thank you, Anders. A lot has happened during this quarter. One thing is that I have been appointed the permanent CEO of Pandox. I am very honoured and pleased over the trust placed in me to lead this fantastic company, which I have been a part of for more than 14 years.

Pandox as an excellent modern company

Pandox has everything I admire in a modern company, having a clear and strong business idea. A competent, experienced and committed organisation and board, as well as a corporate culture which reflects the core values I cherish, being courage, integrity, competence, expertise, low sense of prestige, warmth and a bit of playfulness.

Anneli Lindblom to join as the new CFO

Also, we are very happy of the recent news that Anneli Lindblom will join as our new CFO. She has extensive experience from publicly listed companies, both in the roles of CFO and board member, and most importantly, she has strong personal qualities that will be very valuable to us. So, she will take on her new role on the 1st of December this year, so welcome Anneli to Paradox.

Well-diversified property portfolio

Pandox has a well, diversified hotel property portfolio. In total, we have 156 hotel properties with more than 35,000 rooms in 15 countries and 90 cities, with a property market value of more than 61 billion kroner.

Property management and operating activities

Pandox is divided into two business segments. Property management and operating activities. In property management, we lease hotels to strong and well-known operators under long revenue-based agreements. And this makes up for some 83% of our property market value.

In operating activities, we operate the hotel ourselves under different operating models and operating activities makes up for some 17% of our property market value.

Strong Pandox network

Pandox has one of the strongest networks of brands and partners in the hotel industry. As you can see in the picture, we work together with several well-known operators. For example, Scandic in the Nordics, we work with Jurys Inn in the UK and Leonardo Hotels in Germany. We also have long relationships with strong international brands such as Hilton, Holiday Inn and the Radisson Group. We also recently added Motel One to our network.

Operating activities

In the operating activities segment, we also have some independent brands created by Pandox. For example, Hotel Berlin Berlin, which is our largest hotel with over 700 rooms.

Hotel demand

Hotel demand increased in all markets in the third quarter, supported by strong domestic leisure travel and increased business travel. The underlying drivers of demand were higher economic activities, lifted government restrictions and increased vaccination rates. Our relationship with our banks are strong, and we have close to 4.2 billion in cash and unutilised credit facilities at the end of the quarter. At the same time, our loan to value is a strong 49.6%. The level of economic activity in Pandox market is high and household finances are strong.

Easing of restrictions

Vaccination rates are high and many restrictions that impact travel conferences and events have been eased considerably or lifted altogether in most countries. Companies have also started to return to the physical workplace, is laying the foundation for more conferences and increased domestic business travel alongside continued active domestic leisure travel. All in all, the hotel market is now on steadier ground. Pandox is in an attractive position, as around 80% of all rooms are in regional and domestic cities, and therefore we have a high exposure to domestic demand, which is the main driver of the hotel market recovery.

Numbers for the third quarter

And to sum up this slide, just a quick look at the numbers for the third quarter. Total net operating income increased by 70% like-for-like, property management increased in net operating income by 11%. Return on equity measured by annualised growth in EPRA NRV was approximately -2%.

In the third quarter, we saw clear improvements in demand and earnings in both business segments. Like-for-like, the total revenue increased by 25%, while net operating income increased by 24%. Only minor government support was recorded in the quarter. End of quarter accounts receivable relating to deferred rent and the temporary payment terms amounted to approximately 650 million, which is in line with the second quarter. And the difference is basically only currency changes. Repayment of deferred rents is expected to begin in the fourth quarter of 2021.

A diversified revenue base

Pandox's revenue base is diversified with revenues from different operational models and agreement types. Currently, the minimum rent and fixed rent in property management is our main source of revenue. This amounts to more than 1.9 billion per year, or approximately 475 million per quarter. In the third quarter, we had the revenue-based rents of 147 million, mainly from leases without any minimum guaranteed rent and due to a structure of agreements, we only expect limited variable revenue in leases with minimum granted in 2021. Revenue from operating activities amounted to 287 million.

Comparison of the occupancy levels for the business segment property management

Here we have a comparison of the occupancy levels for our business segments, property management from 2019 until today. The numbers are based on 135 hotels in more than 80 destinations. As you can see, occupancy is currently somewhere between the strong 2019 and the weak 2020; for the month of September, being 55%.

A rapid increase in COVID infection rates in 2020

In Q4 2020, as you remember, Europe witnessed a rapid increase in COVID infection rates and tough restrictions, which led to very weak occupancy in the quarter of 2020. Currently, our prospects for the hotel markets are markedly stronger and occupancy in Q4 2021 will be higher than last year. All in all, the hotel market now rests on a much steadier ground.

Pandox's portfolio in property management

Here we have Pandox's portfolio in property management categorised based on type of location with occupancy index versus 2019. The locations being interstate, our classical roadside hotels, resorts like the hotels you have in Brighton, a Lillehammer, airport like Radisson Hollandia, T4 Heathrow, suburban, that is outside city centres like [inaudible] Italia. We have regional cities meaning Stockholm, Copenhagen, Manchester, Glasgow, Hamburg, et cetera. We have small cities, buildings, hotels like in cities like [inaudible] or Heidelberg. And finally, we have large cities, for example, Amsterdam, Brussels, Dublin, et cetera.

And as you can see, small cities and interstate are leading the recovery, which is explained by the higher degree of domestic demand. We can also say that large cities which are more dependent on international demand have had a slower development. However, large cities are likely to catch up as international travel becomes easier and the recovery continues.

Property management index categories

On this slide, we are divided the portfolio in property management into four different index categories. It showed that in the third quarter of this year, 2021, a fourth or 25% of the number of hotels in the portfolio had recovered up to at least 90% of the corresponding RevPAR level in Q3 2019. Another 26% were between 75% and 89% of the level of 2019 and another 26% between 50% and 75%. Lastly, 23% of the number hotels were below 50% of the Q3 2019 RevPAR level.

Important business events

Now, I would like to highlight some important business events in the third quarter. First how did nhow Brussels bloom, for which we recently completed a major renovation and upgrade.

The hotel has been rebranded to nhow, which is the lifestyle brand of NH Hotel Group. It has a distinct, eccentric design are really stands out in Brussels hotel market. The renovation covered all of the 305 rooms, the lobby and the public area, as well as expansion of fitness area, which we like.

Following an extensive renovation and change of brand, the DoubleTree by Hilton Brussels City has now opened its doors to the public. As you may know, the hotel is located in an eight storey art deco building, which is a landmark in Brussels. The hotel has a very strong location, just minutes away from Grand Place and all main attractions of the city. This fully renovated and refurbished hotel features 354 rooms and suites and extends extensive meeting and conference facilities. All in all, a very strong product.

31st of August, the lease agreement for the Maritime Hotel Mumbai expired and Pandox took over the operations. We also reclassified it to operating activities on the same date. We see great value potential in developing the hotel and we will invest approximately €20 million in a comprehensive renovation and repositioning of the hotel. And we expect this to be completed during the second half of 2022. The hotel will be closed during the renovation.

h27. Pandox took over the operations of h27 in central Copenhagen in April 2020, just when the pandemic started. We immediately started on a renovation and repositioning project, which has been completed in June 2021. 1st of September, we were happy to announce a new lease agreement with Motel One. The lease is revenue based with a minimum guarantee rent on attractive terms and a tenor of 20 years. We very much look forward to working together with the highly skilled team at Motel One and the Hotel property has been reclassified to property management, 1st of October 2021.

The 3rd quarter Pandox property portfolio

In the third quarter, pound of value, the property portfolio, according to same method and model we used on the IPO which we did in 2015. Value changes in the third quarter were modestly positive and yields largely unchanged due to the still inconclusive transaction evidence. Approximately 83% of the properties have now been externally valued during the past 12 months and on average, some five percentage points below Pandox's internal valuations. External valuations exhibit large dispersions both within and between markets, and the valuation differences are smaller in Nordics and larger outside the Nordics.

The 25 external evaluations we carried out in the third quarter were on average, some 3% above Pandox internal evaluations.

Total realised changes during the 3rd quarter

In the third quarter, total unrealised and realised changes in the value amounted to a positive 48 million of which are negative, 9 million for investment properties and a positive 57 million for operating properties. And as always, please note that according to IFRS our unrealised changes in value for operating properties are only reported for information purposes, but is included in the EPRA NRV. End of period, the average valuation yield for investment properties was 5.45% and for operating properties, it was 6.4%.

Value chain of the portfolio per quarter

On this slide, we can see the value change of our portfolio per quarter, as well as accumulate the value change from the start of the pandemic in the first quarter of 2020. For this total portfolio that accumulated negative value change over this period amounts to 5.0. There is, of course, a high correlation between restrictions and demand in the hotel market. When restrictions go down, demand goes up and vice versa. There is proof from Pandox markets and other markets of a strong recovery in hotel demand when restrictions are eased. Banks are supportive, liquidity is strong and transactions relevant for Pandox are supporting hotel property valuations and to be quite resilient.

Established and proven valuation process

We have an established and proven valuation process and we know our hotel properties better than anyone else. We have individual business plans for every property, and we have a detailed understanding of the specific demand and revenue drivers for each asset.

The financial position

A quick look at the EPRA NRV and financial position. End of period, EPRA NRV per share 171.49 kronor. This corresponds to a decrease of approximately 2% on an annualised basis. Loan to value 49.6% and cash and cash equivalents and long-term unutilised credit facilities amounted to 4.2 billion. Our credit facilities maturing in less than one year amount to approximately 3.9 billion, of which 2.3 will mature in December 2021.

Our refinancing transactions during the quarter amounted to the equivalent of around 1.9 billion and the remaining facilities maturing this year are expected to be refinanced in the very near future.

Waivers from lenders

In the third quarter, lenders have been giving waivers in individual credit agreements. It is also worth mentioning that the appetite for our commercial paper programme has increased, and we had approximately 1 billion outstanding at the end of the third quarter.

And with that, I hand over to Anders Berg, Head of Investor Relations to guide us through what happened in the hotel market in the quarter.

The Hotel Market

Anders Berg

SVP Head of Communications and IR

Thank you very much, Liia. Yes, as you know, we expect the hotel market recovery to take place in phases with different segments gradually building up demand in the hotel market.

The Pandox Markets

Over the course of the pandemic, our markets have moved largely between phase one and four, depending on the level of restrictions in each market. Most of the Pandox markets are currently in various stages of phase four, with domestic business demand gradually increasing and thereby adding to the already strong demand from domestic leisure. As more demand segments are added to the mix, the hotel market recovery is getting more robust.

Improvement in hotel demand

The third quarter saw a marked improvement in hotel demand following increased vaccination rates and removed restrictions. The summer was strong in all markets with domestic leisure demand as the main driver. Smaller and regional cities continue to outperform, but larger cities improved steadily as the quarter progressed, as removed restrictions made it possible to reopen various leisure attractions.

Additional support towards the end of the quarter

Towards the end of the quarter, additional support came from an increase in domestic business travel, which also compensated for some of the lost leisure demand as parents went back to work and kids went back to school. Overall, ADR was quite resilient in the quarter. However, international demand remained low.

The ebb and flow of demand

The following six slides summarised the ebb and flow of demand throughout the pandemic in Nordic Regional, Nordic Capitals, Germany, Germany Regional versus international cities, UK, regional and London. The chart on the left is based on monthly occupancy data and the chart on the right is based on weekly data.

I start with Nordic Regional to illustrate the pattern, which is largely the same in all markets, and I am now describing the chart to the left. The recovery that started in the second quarter 2021 continued in the third quarter on the back of increased vaccination rates and reduced restrictions. So far in October, Nordic Regional has continued to perform well, with occupancy levels close to or in some cases above those in 2019, as more segments have begun to contribute to demand.

It is a general trend that larger cities with a high dependence on international demand have seen a slower development than smaller and regional cities throughout the pandemic. During the third quarter, however, larger cities saw a strong relative improvement in occupancy based on increased demand from both leisure and business. In August 2021, Nordic Capitals recorded their highest occupancy since the pandemic started 18 months ago, and the trend looks promising also in the first weeks of October.

Occupancy during the third quarter

Restrictions in Germany, as you know, have generally been tougher than in many other countries, which is reflected in the absolute occupancy numbers. That said, occupancy improved greatly in the third quarter supported by the same trends we saw in the Nordic region, strong leisure demand during the vacation period and also RevPAR rose to very high levels, especially in attractive leisure destinations. Business demand also improved towards the end of September, and as you can see from the data, October has also started positively.

Here you can see the relative difference in occupancy between a regional city like Hamburg and a more international city like Frankfurt, which is more dependent on international demand. Where Hamburg is clearly benefiting from strong domestic demand, Frankfurt is struggling more since important demand segments are still missing. However, September was the strongest month in Frankfurt since the start of the pandemic, also highlighting that business travel has begun to recover.

Amongst Pandox's Markets, UK Regional was the brightest spot also in the third quarter. Occupancy rose immediately after the reopening 17th of May and reached approximately 65% in June. And after the restrictions were completely scrapped 19th of July, it increased further, reaching approximately 71% occupancy in July, 77% in August and 76% in September and

October has started on a high level as well. The UK illustrates well the direct correlation between restrictions and demand, as well as the pent-up demand for travel and experiences.

London is one of the world's largest and most international cities, and it has been suffering greatly from closed offices, travel restrictions in general and, of course, low international demand. Starting in February 2021, from February 2021, occupancy has been increasing now for eight consecutive months, reaching 62% in September on the back of eased restrictions and return to offices. And October has continued on reasonably good levels as well as you can see from the data.

Increased demand for business meetings and travel

With high economic activity, strong corporate profitability and companies reopening their offices, we expect the amount of business meetings and travel to increase. Companies are reducing internal travel restrictions and we think also reconsidering some of the most extreme ideas about travel that they had at the height of the pandemic. The pickup in white collar travel we saw in our markets in September has continued in October. Demand is mostly driven by business transients and smaller meetings, demand for regional meetings is also increasing in operator activities. Positive for business travel going forward, but is also that trade for our calendars are beginning to be restored. So we still believe, yes, maybe fewer business trips, but also a high likelihood for more hotel nights once you travel.

Improving markets

So to summarise, we currently see most of the Pandox markets moving towards or already in various stages of phase four. From a relative perspective, the UK remains the strongest market. All markets are showing improving occupancy, including larger and more international cities based on strong domestic leisure demand and a recovery in business travel. We also think that the planned easing of travel restrictions between the US and Europe in November should lead to an increase in international demand from the current very low levels. And with that, I hand over to Liia again.

Conditions for Growth

Liia Nõu

CEO, Pandox

Thank you, Anders. So, we see improved conditions for growth. We base this on high economic activity and pent-up demand for travel. Domestic leisure demand is expected to remain strong and we expect a gradual increase in business travel as offices and trade fairs reopen.

2022 variable rent

For 2022, variable rent is likely in a majority of lease agreements with minimum guaranteed rent, provided that the recovery continues. The main uncertainty is government response to seasonal variations in infection rates and new virus variants. But let's hope that that is all behind us now.

Annual hotel market day November 23rd

Most importantly, do not forget our annual hotel market day on November 23rd, which will be live and web casted. We promise you a very interesting afternoon. So go to our website to find out more.

And we now move over to the Q&A section.

Q&A

Simon Mortensen (B&B): Yes, hi guys. This is Simon, here. I just have a few questions. It was an extremely strong July in the Nordics, for instance, and domestic demand during Q3 seems to be an inflated RevPAR and due to that stay-at-home vacation element. How do you think about the prospect for continued – will we see Q-on-Q growth for Q4 given this very, very strong July impact or the summer impact in the various markets? What are your expectations there? Are the recoveries strong enough to compensate for that summer effect, which helped in Q3, please.

Liia Nõu: Sorry, it is broken here. Yes. Year, on year. Well, yes –

Simon Mortenson: Q on Q. Q in Q for because of the strong Q3.

Liia Nõu: Well, yes, of course you have the business travel coming in and also the sort of international. When it comes to the question was the regarding the –

Simon Mortenson: Will you see enough [inaudible] Q on Q recovery with the Q3 being as strong or it was on a lesser effect?

Anders Berg: Yes, I think just starting off to answering the question, I think that as you say, I mean, Q3 was really boosted by strong domestic demand on the left side. That has continued I would say on weekends and going into the fourth quarter and then we get additional support from business. That is certain. Whether that will be enough to really push us to a sequential increase compared to the Q3 is really too early to tell. Year on year, of course, we are meeting a quite easy, comparable quarter, but on a sequential basis, I would say it is possible, but it is still early to tell.

Simon Mortensen: Okay. Thank you. In the addendum manifestation page 33, there seems to be some new information as I can see it. You have a slide where you have fully variable leases and you state 6,666 hotels are, if I understand correctly on fully variable leases, is that correct? And those will be just in the property management fully reflecting on the RevPAR performance of these hotels.

Liia Nõu: In Pandox we have like 30, but this still the same number – amount which were in the third quarter, meaning that we have just, let us check on the room, roughly. So we have 32 hotels with fully viable leases and 6,666 rooms.

Simon Mortensen: Are these calculated quarterly or annually and how will that affect eventually Q4?

Anders Berg: The number you see there is based on the on the outcome of 2019. So, it has not been adjusted to the situation we have now. But it does not deviate that much.

Simon Mortensen: Thank you. Those are my questions for now.

Robin Rossman

European Performance Update October 2022

Managing Director, STR

Thank you very much. And thank you for having me along again today just to share some of our insights on what is happening to performance across Europe.

So, I think on screen now should be a slide that says European performance update, October 2022. And just as Anders said, we are an independent firm and we are sharing this market insight. It is not investment advice or any of that, it is our own assessment of what is happening in the market.

Agenda for today

If we go across to the next page onto the agenda the three areas that I would like to cover today are really taking a look at the big question that is been on everybody's minds through the summer months, which was we all recognised and saw the impact of really a very, very strong summer because of pent-up demand. But the question was when that summer season ends, will business travel return or not? So that will be the first thing I looked at.

I then go on to average room rate and a bit of a rate roller coaster that we have been seeing in the market and then finish off with how that race has so far been driving a profitability rebound that was a bit stronger than anybody expected. And what we can expect going into the future on that.

Future business travel

The question as to will business save, is it yes, no or depends. And if you go to next slide, I think this is a lot of different data across a lot of countries. We'll pull out some of the top performers and the bottom performers in a bit. But the big question around will business travel save us as leisure fades? The answer, I think, is either depends or yes, depending on the country that you are in, but generally, yes.

This shows you occupancy indexed to 2019 through the month of January through pretty much the end of October in 2021. And what you can see is the ramp up in the summer months, where occupancy for countries as a whole went up to 60% to 80% of 2019 occupancy levels. Now and then as we went through into September and October, instead of dropping back down to the 20% of 2019 levels that we saw happen at the end of last year, and as was the case at the beginning of this year, we have seen that it is maintained its hold steady at that 60% to 80% of 2019 levels.

Now, if you go out and look across commentators in the industry, everybody has a view around when will business travel recover. And I am not here to give you that view. What I am here is to show you the actual data that in the month of particularly October, September, October, when yes, there might be some shoulder leisure travel, but the reality is most of it has gone away, the occupancies of countries as a whole have not fallen off a cliff like they did last year. And this is an environment where I am sure you all realised, we are still nowhere near back up to the normal levels of business travel activity as companies and as individuals ourselves.

Recovery of business travel

So, this is showing you actually quite a strong resilience of market occupancies, even when we still do not have international travel back at all, really. And we have some pan-European travel back, but not really that much back. People are only really beginning to get back to the office now, and we are going to start seeing that proper recovery of business travel, I would say the beginning of next year. But even before that, we are seeing that there is this residual necessary business travel that has been stopped and is coming back already based on the data that we have seen.

Top performers

As I said, it does depend on where you are in terms of how strong this has been. If you look at the top performers Germany, Poland, Russia, Turkey and the United Kingdom, indexing 70% to 85% of 2019 levels. And please bear in mind, these are peak business travel months, peak conference months that typically happen in Q4, and that conference demand is not back yet. So this is actually quite remarkably strong in that context. The UK obviously ahead of most European countries, because of the faster vaccine rollout and even though cases are particularly high here in the UK at the moment, they are staying resilient because of the high vaccination rates at around about that 80% of 2019 levels. Germany too, turn around that 70% despite not really having fairs come back fully yet.

Non-strong performers

Some of the countries where performance is not as strong yet are Belgium, France, Italy, Netherlands, Portugal, Spain back in the 50s to 60% indexed to 2019 and really still not as much recovery there. Digging into why they are so much behind the other countries still have not had a lot of solid answers, but that domestic travel not coming, business travel not coming back as fast there yet. But there's no reason to believe that it is gone forever, given it has come back in other countries like the UK.

Business on the books for the next 28 days

So that data takes us up to the middle end of October. What we are also able to look at is what is the business on the books for the next 28 days? And this shows you what business on the books for the next 28 days was at various times throughout 2021, and you can see in the light green of each of these countries back at the 10th of May for the UK, business on the books was only about 20%. So as at the 20th of May or the 10th of May, there was only 20% of room sold for the next 28 days. And as we have gone through the year, you can see how they have picked up through the summer months and it is held steady.

So even for the UK for the 18th of October, looking forward, the next 28 days business on the books was marginally stronger than the week before. And if you compare that across the countries we have got here, we can see those countries that I said were struggling, particularly Belgium, Netherlands, they are looking to continue to recover strongly. So, whereas the UK is likely to look stable going into November, December, we should see stronger recovery coming through Belgium, the Netherlands based on the rooms that have already been sold as of effectively the middle of October. So again, I cannot say when business will recover fully, but what I can say is already it has recovered a lot and is trending to recover further.

A difficult year

So clearly, that is at country level and it is easy to – well it is important to recognise that markets that a country perform very differently. Certainly, through the summer, leisure markets were indexing above 2019 occupancies and well above 2019 room rates. But major cities like these gateway cities across Europe were not. And if you look at September year to date occupancy, this is just absolute occupancy. You can see it has been a tough year across European gateway cities. As an example, London 31% occupancy Amsterdam 21% occupancy is a pretty tough year.

The month of September

But as we look for the month of September, so this is not year to date September, you can see it is actually a lot better. Again, this is occupancy of total rooms, so this is adding back closed hotels. You could see London up at 58%. Many cities have had over 50% occupancy.

If we look at open hotels and index them against their 2019 occupancy, so this is not absolute occupancy, this is indexed. You can see that many are indexing around about two thirds of their 2019 occupancy already. So a lot is out there. But basically, what we are saying, hey, in September, it is not a leisure month, international travel is not back yet. We are still a long way from fully recovered, but it is very different to this time last year. We are still continuing a path of recovery and occupancies across those markets that have been impacted the most, which is major gateway cities are actually indexing two thirds of 2019 occupancies already, which is pretty strong.

The next 28 days at city level

The next slide is looking at business on the books again and it is looking for the next 28 days. It is at a city level instead of a country level, and you can see that actually it is a much more positive trend than the country level. In the sense, it has not flattened out and stabled; it is actually continuing to grow in most places, especially places like Amsterdam, Brussels, Barcelona, Paris. Each week, the business on the books for the next 28 days is stronger and it is not flattened out like it has from a country level. And the reason for that is the country level is a mix of cities like this which are trending up and leisure destinations which are trending down a bit.

So what that is saying is very much we are into the next phase of the recovery. Leisure is going away, as it always does in the winter months, but it is being replaced by that business travel and importantly, particularly in these gateway cities that have been struggling it is coming back. So there you go. Reference to all of you guys with kids. Can Bob get back? Yes, he can.

European rates recover ahead of occupancy

So onto slide the next slide, which should be called ADR roller coaster. And then onto the next slide, which says 'European rates recover ahead of occupancy'. And this has been one of the biggest surprises looking at August's absolute occupancy and rate index to 2019. You can see at a country level similar to the data I showed you earlier. For the month, yes, there were some destinations and hotels that had occupancy indexed above 2019 levels, but for countries as a whole, occupancy was still indexed 60% to 80% of 2019 levels. However, rates for most countries was indexing at or above 2019 levels.

Significant rate increases for leisure travel

Turkey a bit of outlier there, obviously because of the currency situation and most hotels in Turkey are actually pricing in euros. So getting some uplift there. But if you ignore Turkey for the moment, you can see really strong rate recovery, which is certainly much faster than anyone would have predicted, underpinned by that pent-up leisure demand, driving significant rate increases in those markets where there was leisure travel and then cities and those markets where there was not much demand, maybe, maybe not discounting as much, but really, it is a story of mix. So where there demand it was high rates of demand.

Rates analysis

As we go into September and that leisure demand has faded away, you can see that the indexing is slightly lower, but still rate is not far off 2019 levels. This is actually just looking at rates by month to 2019. And you can see that it definitely peaked up in the summer months, rolling 28 days, a bit of a lag there. But you can see, as we have gone into October, it has dipped down. Now that dip down is actually less to do with rates decreasing and more to do with the fact that rates are stable and that this data is indexed to 2019. And usually, we would see rates go up because of that – higher international business travel in October, September, October, but instead rates have been stable and the comparables get harder, so that is why we are seeing that rate index lower again.

Individual country analysis

And just looking at some of the individual countries. You can see that in countries like the UK, which have been further ahead on the recovery, that actually rates have flattened at around about 2019 index levels. And then Italy, Portugal and Russia tipping off a bit but more leisure travel there, still indexing around about 100%. So I think the UK is a really good benchmark for what to expect for Europe in the long term as things normalise and pretty strong rate recovery there overall, really underpinned by leisure still being strong but fading the regional cities doing really well. I do not have the slides in here to show you that data that certainly those secondary cities, Liverpool, Manchester doing really strong and London starting to come back.

Individual country analysis

The country's doing less well. Similar to those from an occupancy perspective that have not come back as strong as the UK yet; Belgium, France, Germany, Netherlands, Poland, Spain all indexing at 70% to 90% of 2019 rates.

Profitability

Just a few slides on profitability because clearly, as we are now into the next phase of the recovery, the initial phase was worrying about occupancies. When will that come back? Once we have understood the occupancies and the volume coming back, then it is the profile of rate recovery and we are starting to see that and it is been stronger than we expected.

But clearly, what is most important from an investment perspective is what is happening to profitability. We also tracked that across Europe, and what we can say looking at a global picture, Europe has actually seeing gross operating profits recover very strongly through the year and indexing higher than most other regions of the world because of that strong rate growth in leisure markets in the summer months, so indexed to 78% of 2019 GOP.

And if we look at it at a city level you can see some of those gateway markets actually after a particularly tough start to the year because of the low volumes were indexing back at somewhere between 10% to 25%, 30% of 2019 levels as we went into August, even at a gateway city level. So it is that stronger rate recovery than expected is helping drive that GOP recovery. And the big question around cost inflation is clearly one that everybody's looking at, and a lot of the extent to which the hotel industry will be able to absorb that incremental cost will depend on the ability to hold and get that rate recovery continuing. So that would be the one to watch in the months to come. And with that, I will say thank you and hand back to the Pandox team.

Liia Nõu

Concluding Comments

CEO, Pandox

Thank you again for this hotel market update. And thanks, all folks. Thank you for participating in this call. We really appreciate it. Your time and interest in Pandox and our yearly report for this year is published on February 10th. Thank you all. Stay safe. Stay at our hotels and have a great day. Goodbye.

[END OF TRANSCRIPT]