

EXPERT OPINION

UK Hospitality Revival: From Roadmaps to Tightropes

The UK Hospitality Industry's Revival Relies on Relationships



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3 March 2021 | 7:57

The light at the end of the tunnel is finally getting brighter for some in the hospitality sector. A roadmap is now in place, and while there may be some traffic delays, it is at least looking like the worst of the pandemic is in the rear-view mirror.

Many entrepreneurs are now looking at how to best position their businesses in the approach to April 12th and May 17th, but it's the work done over the last few months that has really been crucial for future-proofing. Forward planning has allowed landlords and tenants to restructure their property costs, whether temporary or permanent, and this has been a key adaptation that will help both take on the challenges to come. The successful rollout of the vaccine means that before we even know it, the moratorium and furlough scheme will be lifted.



A lot is said about a potential bounce back, but we have to temper that hope with a dose of reality. The level of deferred debt will mean that a number of businesses will not survive to see this new dawn – the rent mountain alone could reach £7 billion by some calculations.

As I and my colleagues have been saying for nearly 12 months, open dialogue between landlords and tenants is critical. This is, however, the case more now than at any time over the past year. Where a business is in genuine distress, yet for whom financial forecasting can demonstrate it is sustainable with appropriate support, this presents a platform for constructive discussions, which must be reasonably approached by both landlord and tenant.

Equally, such assessment may also demonstrate that, in many cases, the business cannot support deferred debt. This is a very real and present danger, which will not be eased by calls for government intervention to prevent rent arrear evictions providing current obligations can be met and a payment plan for past liabilities agreed. The chances of the government directly acting in this way are remote, given the longstanding policy of not making mandatory directives on rent. In this sink or swim scenario, the government will not be offering flotation devices to businesses it believes are destined to fail.

Without intervention though, what will happen?

Ultimately, you would expect market forces to prevail; it will be up to landlords and tenants to determine and control their own destiny. For both parties, reputation is a very valuable currency, and this is only enhanced by constructive dialogue. This is why we have seen some agree to unconditional write-offs of rent arrears, and some grant rent-free periods. Others have provided substantial financial support in return for variations to the lease. Typically, this involves extending the term, forgoing rent reviews in return for fixed increases at future reviews, and the introduction of turnover-only rents.

Proactive landlords do, after all, have a strategy; deals are not agreed on a whim. That prospective tenant at that time will have the landlord's full confidence, so it makes sense to utilise short-term support tools that help maintain the long-term strategy. Beyond it being a purely positive decision to make concessions, however, there is also the practical consideration of how readily premises can be re-let should the tenant choose, or be forced, to vacate.

It was not that long ago that it was anticipated, perhaps ambitiously, that we would be entering the new normal in the first quarter of 2021. This clearly has not happened, as we are still fighting to control the pandemic, so the year ahead is set to be as challenging as the last. We welcome the call to extend 5% VAT and to prolong the business rates holiday, and eagerly anticipate Rishi Sunak's budget. While this is only a matter of hours away, in the meantime the sector must start to get back on top of rent arrears, and we all have a role to play to find the best possible outcomes for both sides.

The UK's hospitality sector is rightly regarded as one of the best in the world, and while its future is dangling perilously on a tightrope, a mature landlord-tenant relationship continues to be the safety net beneath.

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