






## Hotels & Leisure

What are the legal implications for the hotels and leisure sector following a Brexit?

Issue	Impact	Areas of law affected
<p><b>Increase in inward travel into the UK due to favourable exchange rates</b></p>	<p>The significant reduction in the value of the pound following the vote to leave the EU will make the UK more attractive as a destination for foreign visitors which could increase demand for UK-based hotel and leisure businesses. This may also divert visitors to the UK who might otherwise have visited other countries, reducing visitor numbers of other countries. But the UK receives fewer travellers than it sends out and so this inward bound effect is likely to be smaller than the impact on outward bound travel, outlined below. The size of the impact will depend upon where the value of the pound ends up after the volatility following the initial result has subsided. For EU visitors, the attraction of the UK as a destination will also be affected by general sentiment towards the UK as a result of this vote.</p>	<p> All</p>
<p><b>Reduction in outward travel from UK due to fall in value of pound</b></p>	<p>Exchange rate shifts will make travel from the UK to all countries more expensive, reducing demand for outbound travel. This will hit France and Spain the hardest as they receive around 12-13 million visitors a year from the UK which is around 18% of all visitors to Spain and 14% for France. Italy, Greece and The Netherlands all receive significant numbers of UK visitors. Even a relatively modest percentage reduction in UK visitors could have a significant economic impact on these countries' tourism economies. Those UK travellers who decide not to leave the UK may decide instead to travel within the UK, boosting demand for UK-based hotel &amp; leisure businesses.</p>	<p> All</p>
<p><b>A fall in UK GDP will result in falls in operational activity</b></p>	<p>The hotel market demand curve has traditionally tracked GDP very closely. If Brexit does have a material adverse impact on UK GDP, which is what most economists were predicting in the short-medium term, then we would expect domestic demand for hotel services to fall equally. This may offset some or all of the gains arising from the exchange rate shifts outlined above. Until we start to see the full economic effect of this decision we will not know whether the net effect is positive or negative for UK hotels.</p>	<p> All</p>

## Issue

## Impact

## Areas of law affected

### Freedom from EU legislation will have little impact

The UK will be free to make its own laws on matters previously covered by the EU such as health & safety, food labelling, energy efficiency and some employment rights. However, there is no indication that the UK would seek to make any material changes in these areas. Indeed most recent UK employment legislation such as minimum wage and shared parental leave has not come from the EU. The minimum wage and the National Living Wage have had the biggest economic impact of all recent employment laws on hotel and leisure businesses. Both were introduced by Conservative government and were not imposed by EU legislation, so we do not expect a Brexit to have any effect on these. Any other UK employment laws (except for immigration – see below) that change as a result of the UK leaving the EU are unlikely to have a material impact on UK businesses. See our [employment checklist](#) for more details.



Health & safety



Employment

### Work permits for EU citizens may be restricted

Hotel and leisure businesses in the UK tend to have very high numbers of non-UK employees. This is partly because the sector is very international and many managerial staff will spend time in several different countries, but also because the industry needs a steady supply of relatively young, hard-working, low-paid staff where multiple languages are a distinct advantage. As a result, the UK industry has been a major employer of EU migrants. If the UK leaves the EU, it is unclear what immigration and work permit rules will be put in place. If similar rules apply to EU citizens as apply now to non-EU citizens this could cause extensive recruitment difficulties for UK businesses. Even now, many Indian and Chinese restaurants struggle to find suitably qualified chefs and cannot recruit from India and China because of restrictions on available work permits for non-EU citizens. This problem could be multiplied if inward migration from the EU is also heavily restricted.



Employment

### Cross-border investment from non-UK investors into the UK

Hotels have increasingly become a recognised real estate investment asset class over the last 15 years. The hotel and leisure industries have seen large numbers of institutional investment funds, private equity funds, sovereign wealth funds, private investment companies and high net worth individuals acquire assets from the operating companies over this period. In the short term, exchange rate shifts will make UK assets cheaper to buy for foreign investors, encouraging inward investment. But this may be outweighed by market uncertainty which means that international investors may not have the confidence in the market, notwithstanding the lower asset prices. Asset values are made up of a combination of the market investment multiple (or yield) and the operating profits of the underlying businesses. In growing markets, both factors will increase leading to fast growth in asset values. But equally in times of recession, both factors are likely to fall meaning that hotel & leisure asset values may fall much faster than other types of real estate which benefit from less volatile income streams. Any downward pressure on asset values due to shifts in multiple/yields or reductions in profitability may be partly offset for foreign investors by exchange rate movements referred to above. But income streams in pounds generated by hotel & leisure assets will be worth less for foreign investors.



Corporate



Real Estate



Private Equity

## Issue

## Impact

## Areas of law affected

### Access to debt from non-UK lenders to fund investment and capital expenditure

The hotels & leisure investment market has been supported in recent years by a steady supply of cheap bank debt to support investment and boost investment returns for equity investors. In small and mid-cap deals, these are mostly UK-based high street lenders, who we would expect to remain active at existing levels. However, for mid-to large transactions, a number of non-UK European banks and alternative lenders such as pension funds and debt funds are active. Larger debt deals rely on the European debt syndication markets to allow transaction risk to be spread over a wider pool of syndicated lenders. It is not clear whether the UK leaving the EU will have any adverse impact on these European lenders' willingness or desire to do business in the UK or whether they will seek to keep their activity within the EU boundaries. If availability of debt for larger deals were to reduce or if pricing were to go up (eg to hedge increased exchange rate volatility) then this would decrease investment activity and hence asset pricing. It may also inhibit existing investors from borrowing to fund capital expenditure and other improvements to UK assets.



Banking



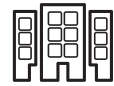
Financial Services

### Effect of legislative and taxation uncertainty on investment decision-making

The only thing that is certain is that there will be high levels of uncertainty until the UK has completed any process it undertakes to leave the EU, agree a replacement deal with the EU and with all the other countries with which the UK wishes to trade which currently rely on EU deals. This process is likely to take several years at least. An extended period of uncertainty is likely to result in deferral or cancellation of investment decisions due to lack of transparency of the effect of future changes in the legislative and taxation framework affecting the hotels & leisure industry, while this renegotiation process is ongoing. The UK currently has one of the lowest corporation tax rates in Europe and the UK Government is committed to ensure that it remains one of the most competitive corporate tax jurisdictions in the G20. Whilst tax rises have been suggested in order to deal with the economic challenges following the vote to leave, we anticipate that it is unlikely that there would be a significant increase in the rate of corporation tax.



Corporate



Real Estate



Private Equity



Taxation

### Travel safety and security impact on international travellers

We have seen that terrorist attacks and other adverse security incidents can have major short-term impacts on city and country destinations. North African countries such as Tunisia and Egypt have seen devastating falls in visitor numbers and revenues from inward travel. Turkey has been heavily affected by the ongoing war in neighbouring Syria and repeated terrorist attacks; and Paris and Brussels both saw very quick drops in visitor numbers after recent attacks there. It is noticeable that hotel occupancy rates recover much faster from one-off incidents now than they used to. Paris has suffered slightly more than Brussels because it has suffered repeat attacks and so has been slower to recover. We do not believe that a Brexit will have a major effect on the safety or security of the UK and London in particular as a destination. As a result, we do not expect that security issues around leaving the EU will positively or negatively affect visitor numbers to the UK.



All

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