



# Summer 2021: Revival of the travel industries?

August 2021

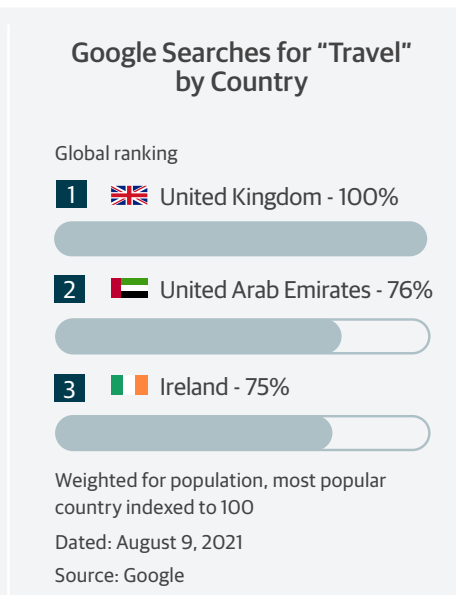
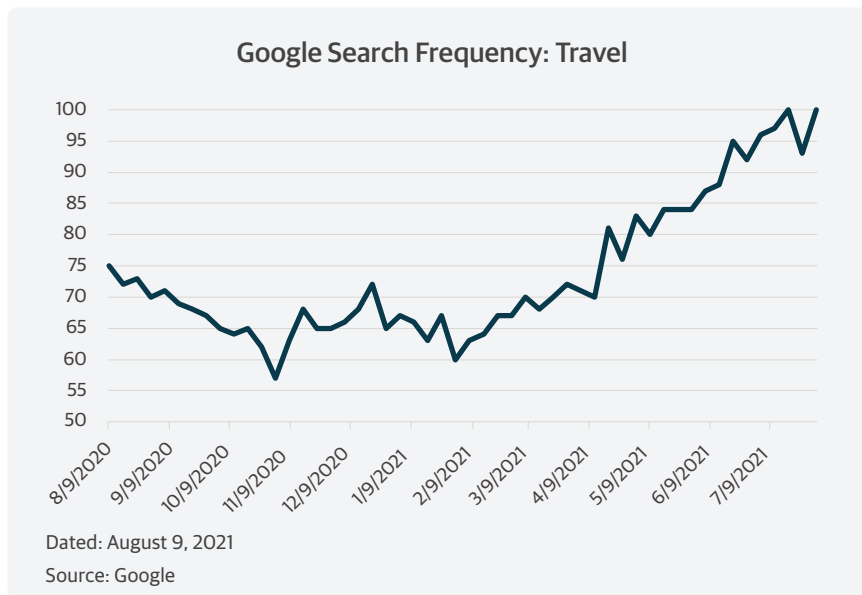
*With the increasing availability of Covid vaccinations, many are hoping for a "light at the end of the tunnel" for the battered travel and tourism industries. The actual trend so far has been less exciting as Covid cases continued to spread and government restrictions persist. With no clear path to unrestricted travel and renewed uncertainty surrounding vaccine efficacy against potential variants, we continue to see outsized risk in opportunities in the hospitality and travel industries.*

Not yet a "normal" experience, summer travel has nonetheless picked up compared to last year. Travel related google searches have increased by over 30% since last August. UK-based potential travelers top the list of travel interest by country, while the GCC showed considerable interest with the UAE ranking 2nd. International travel has been improving since the start of

the year, however, unevenly across the different regions. At the start of the summer, the highest recovery in international travel arrivals was witnessed in the Americas, where travel to the Caribbean had recovered the most to over 50% of 2019 volumes. On the other end, Asia and the Pacific were the farthest behind<sup>1</sup>.

<sup>1</sup> UNWTO

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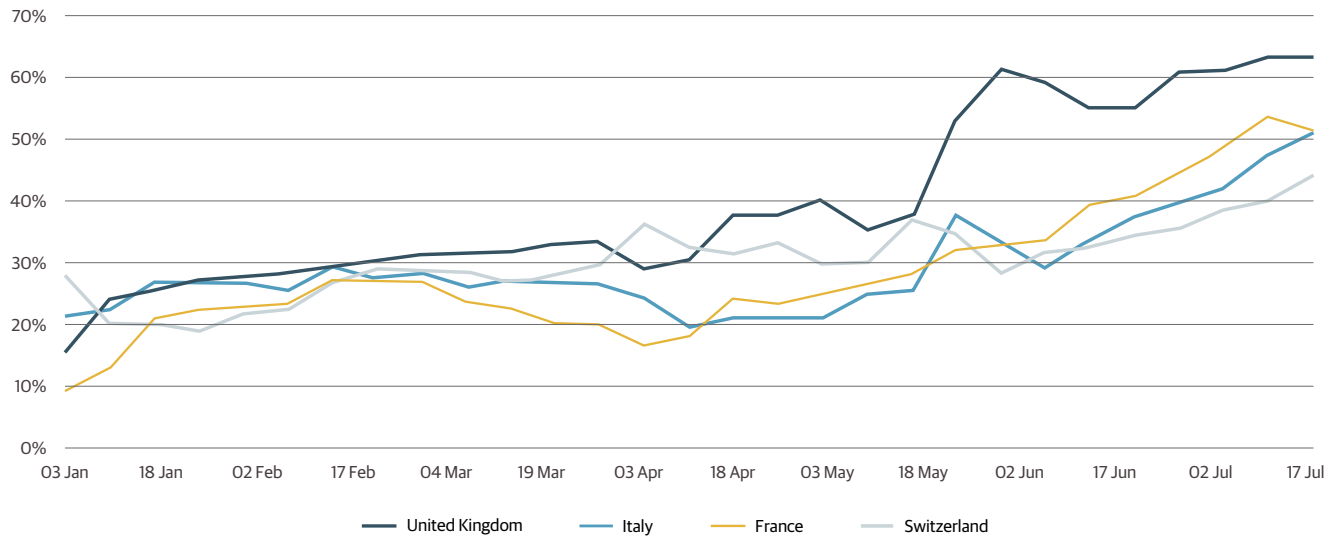
Airfares, lodging, and car rentals have all experienced price hikes this summer over last year, mainly due to the drop in capacity in 2020 that has yet to catch up to the recovering demand. In the US, June CPI y-o-y increases for airfares, lodging and car rentals were 24.6%, 16.9% and 87.8% respectively.

Delta Air Lines was able to record a profit in the second quarter of the year, its first since the start of the pandemic.

Demand for flights was 20% above forecast. Although the government grants that supported their profit last quarter were in the most part used to maintain employees on the payroll, the airline still faced staffing constraints and was overwhelmed by the demand.

Car rental companies underwent heavy asset sales during 2020 to stave off insolvency and bankruptcy following a sharp drop in demand. The recent

Running 7-day occupancy, January-July 2021



Source: STR. 2021 © CoStar Realty Information, Inc.

spike in demand, fueled by tourism, has encouraged companies to increase the size of their fleets. However, most rental companies have not added supply fast enough to meet demand.

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Hotels have performed markedly better this summer as compared to last year. Occupancies have increased this summer in Europe and the US. The UK hotel market performed the best in Europe, reaching 60% occupancy this summer, approaching the 80% pre-Covid rates. The US occupancy rates reached 70% last month, only 6% lower than pre-Covid rates<sup>2</sup>. While vacation-destination hotels are likely to outperform these figures, the sector will lag pre-pandemic performance until business travel resumes in earnest.

Travel restrictions this summer have varied across locations and have been inconsistent. Apart from being specific to the travel destination, they also depend on other factors such as where the travelers are arriving from, whether they are vaccinated or not, which vaccine they have taken, and local infections prevalence. Global travel regulations are nuanced and range from complete closure to no restrictions for vaccinated individuals.

<sup>2</sup> STR

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Since the start of summer, daily cases have been rising in the US and popular European destinations. Easing of international travel and Covid restrictions in these destinations played part in the increase. The surge in cases this summer, however, has been dealt with differently to previous waves as countries are able to impose conditional restrictions, though unpopular, on non-vaccinated individuals, which have helped curb

the rise without the need for extreme lockdown measures. In late July, France started requiring visitors of cultural sites to show a health pass: either a vaccine certificate or a valid PCR test result. This requirement has now been extended to other indoor venues such as restaurants and malls, as well as to internal travel.

Governments are choosing regulations that factor in the availability of quarantine facilities and health risk to their population. It remains a balancing act between supporting the tourism sector and ensuring public health safety. Governments have been adapting their travel restrictions based on rises and drops in case numbers both internally and globally and are likely to continue to do so, eliminating hopes of consistency in terms of travel regulations in the near term.

An example of inconsistent government approaches to tourism was on full display this summer. The UEFA European Football Championship took place earlier this summer and was hosted by 11 different European countries, including England, Italy, Spain, and Germany. Spectators were

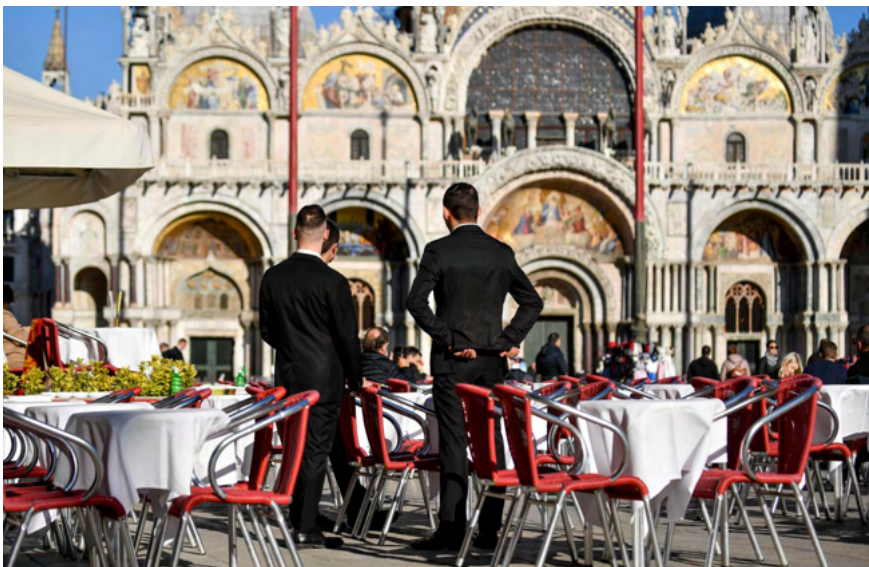


allowed into stadiums, which boosted travel to hosting countries. Conversely, Japan banned international spectatorship entirely for the Tokyo Olympics. Japan increased restrictions before the games by declaring a state of emergency that would last until after the Olympics were concluded.

Despite the availability of vaccines, Covid and travel restrictions are likely to continue in the short term since the vaccine effectiveness and roll out is not yet significant enough to contain

the spread. Experts are still undecided on what level of vaccination is needed within the population and how long the vaccines remain effective. Add to that the risk of new variants that could decrease the effectiveness of the available vaccines and the path to a sustained return to pre-pandemic travel patterns becomes even more uncertain.

Though it still has a long way to go to recover from the pandemic, the travel and tourism industry has made a marked move in the right direction this summer. Recovery for the industry is highly dependent on easing of travel restrictions, which, given this summer's experience, will persist for a while longer and clearly favor the vaccinated. Governments will continue to ease and tighten Covid restrictions as case counts flare, which will continue to give rise to a mismatch between demand and supply. This mismatch will be reflected in volatile pricing. With limited knowledge of how long it will take to overcome this interim phase to recovery and of the effectiveness of the vaccination against future variants, we continue to see considerable tail risk in travel and tourism investment opportunities.





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Arcapita Investment Management B.S.C.(c)  
Arcapita Building  
P.O. Box 1357, Manama  
Kingdom of Bahrain

Tel: +973 1721 8333

Arcapita Investment Management US Inc.  
1180 Peachtree Street NE, Suite 2280  
Atlanta, GA 30309  
United States of America

Tel: +1 404 920 9000

Arcapita Investment Advisors UK Limited  
The Shard, 32 London Bridge Street  
London SE1 9SG  
United Kingdom

Tel: +44 207 824 5600

Arcapita Investment Management Singapore Pte. Ltd.  
24 Raffles Place, #16-03 Clifford Centre  
Singapore 048621  
Republic of Singapore

Tel: +65 6513 0395