Industry in Focus

An upbeat outlook for UK hotels in 2025, but downside risks remain

UK Hotels Forecast 2024-2025

December 2024

pwc

Content

Overview

The outlook for UK hotels in 2025 is generally positive but not without risk

The outlook for demand in the UK hotel market suggests a positive, but low growth scenario in 2025. This is being driven by normalisation of economic conditions, and a return to pre-pandemic levels of leisure tourism after the covid boom.

On one hand, the below average UK GDP growth of 1.6% in 2025, coupled with declines in consumer and business confidence, could have a dampening effect on UK domestic business and leisure demand.

However, if UK interest rates fall as predicted, and the pound weakens, inbound tourism could be buoyed by the relative affordability of the UK for international travellers.

There are obvious timing risks to this growth scenario, and overall demand may still be affected by global economic uncertainty and the potential for increased tensions. However, if we discount these downside risks, we anticipate a return in inbound travel to 99% of pre-covid levels, driven by growth from the U.S., Europe, and Asia.

London

London revenue per available room (RevPAR) in 2025 is forecast to increase by 3% to £161.10, driven by an occupancy increase of 3.8% to 83.2% representing a return close to pre-covid levels. Average daily rate (ADR) however, is forecast to decline marginally due to low inflation and leisure and corporate traveller price sensitivity in a competitive market.

UK Regions

In the regions, where GDP is a stronger driver of UK domestic corporate and leisure demand, RevPAR is forecast to increase in 2025 by 1.9% to £71.30, driven by an increase of 2.3% in occupancy to 77.9% with ADR forecast to remain close to 2024 levels.

Corporate demand likely to remain below pre-covid levels

While further recovery in corporate travel demand is expected, volumes in 2025 are likely to remain lower than pre-covid levels due to the rise of remote work and virtual meetings. Hybrid meetings, with a blend of in-person and virtual attendance, are now a well-established trend and likely to strengthen in 2025. Hotels with good facilities for events and conferences may experience a benefit from an increase in demand for Meetings, Incentives, Conferences, and Exhibitions (MICE), as in-person events regain popularity, although short lead in times, particularly for smaller events which are a feature of the market post-covid.

Leisure demand likely to see subdued growth

The post-covid above average growth in domestic leisure tourism, which played a vital role in the recovery of regional hotels, returned to normalised levels during 2023. While challenges like unpredictable UK summer weather and competition from international travel may affect certain consumer segments, many UK residents will continue to explore domestic destinations, particularly for shorter, experience-led trips. However, in the UK regions 2025 is likely to see subdued growth in demand. London will continue to attract the bulk of increase in demand from international travellers, key regional cities like Edinburgh, Manchester, Liverpool, Birmingham and Belfast and some regional leisure locations will also benefit as international visitors seek more diverse experiences.

Recent sharp consumer confidence decline is a risk if it sticks

The PwC Consumer Survey carried out in July 2024, rated consumer sentiment at the highest level for three years and indicated that the pinch felt by consumers appeared to be easing. However, in the Autumn Consumer Sentiment Survey, headline consumer confidence has recorded a big reduction to -8, the lowest level seen in 2024. This dip follows the withdrawal of the winter fuel payments, and was measured ahead of changes made in the most recent Budget. Although this sudden decline may be seen as a knee jerk reaction to the unknown, recent data confirms a continued dip in confidence, as households become more cautious about their financial outlook. There is a risk for UK hotels that some or all, of this negative sentiment sticks, particularly in the over 65's demographic, who account for a significant amount of UK hotel leisure demand.

Minimal threat from supply growth forecast in 2025

In the UK regions 43 hotels with 3800 rooms are currently under construction and due to open in 2025. This represents a below average increase of 0.7% in supply. In London, an additional 18 hotels with c3,000 rooms are currently under construction and due to open in 2025. This will result in a 2% supply increase, which is in line with the average growth.

Our estimates of supply growth in 2025 exclude the impact of any hotels returning to room supply following use as humanitarian accommodation by HM Government when they were excluded from supply statistics. There is potential for a localised reduction in existing hotel performance when these hotels, that according to STR estimates account for c3.5% of UK regional supply, are gradually reopened and re-enter the competitive market.

Major events driving UK hotel demand in 2025 include Oasis and Coldplay concerts that are likely to exceed the 2024 'Swift effect'

The welcome boost to hotel demand in 2024 caused by Taylor Swift's Eras tour that included 15 concerts in Cardiff, London, Edinburgh and Liverpool is likely to be equally matched by the announcement of 17 concerts in 2025 by Britpop band Oasis, who have included Manchester rather than Liverpool as a venue in the regions. In addition, Coldplay are planning 8 concerts in Hull and London in August 2025 as the UK leg of their Music of the Spheres World Tour. Despite differences in fan demographics, music style and the market appeal of each artist, both are likely to have a significant impact on hotel demand in concert locations. In addition to annual repeat UK sporting and music events, such as Wimbledon and Glastonbury, in Q3 2025 The Women's World Cup Rugby Championship is scheduled to take place in 8 UK regional venues with the final played at Twickenham.

UK Budget and US Election potential impact

The recent UK Budget and US Election have introduced new variables not included in our current projections, particularly affecting the hotel industry through increased Employers' National Insurance Contributions (NIC) and a higher minimum wage. Theses changes are expected to raise payroll expenses, thereby squeezing profit margins. Hotels catering to less price-sensitive customers, such as the luxury segment, are likely to transfer these costs to guests, potentially resulting in higher room rates or additional amenity fees. Conversely, hotels serving more price-sensitive customers may look to implement cutbacks on non-essential services to mitigate ongoing operating costs.

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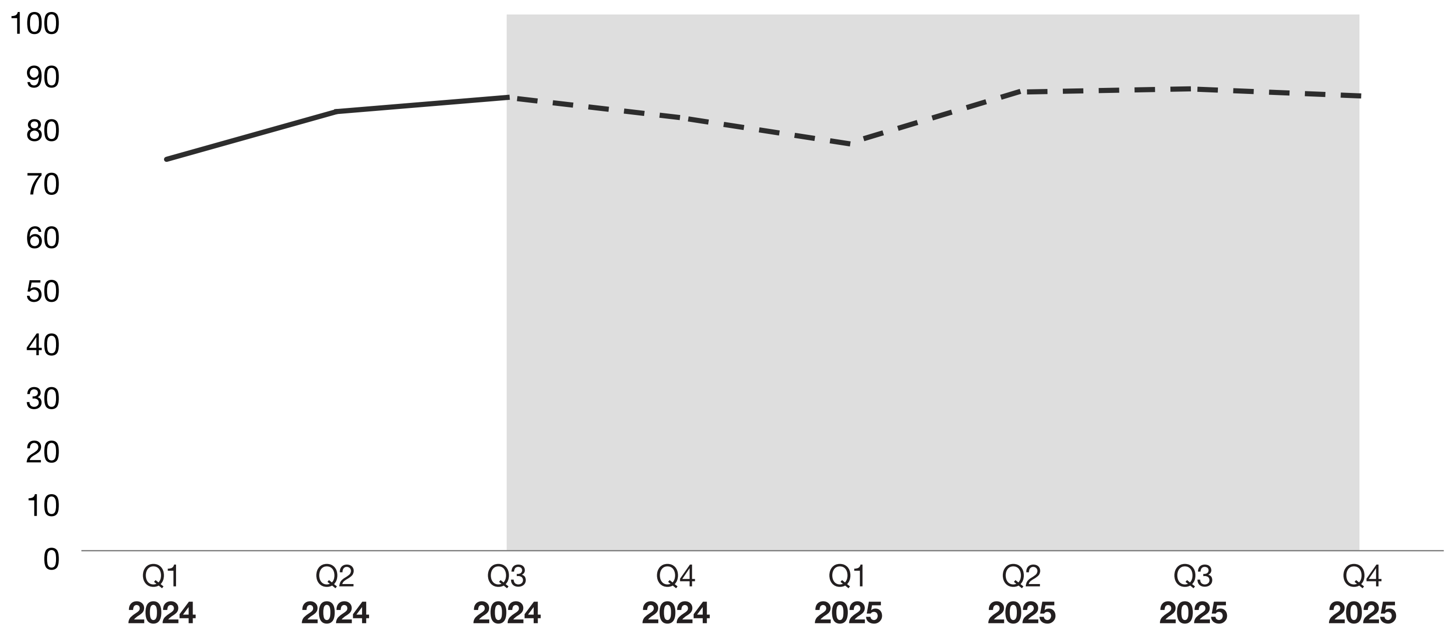
London

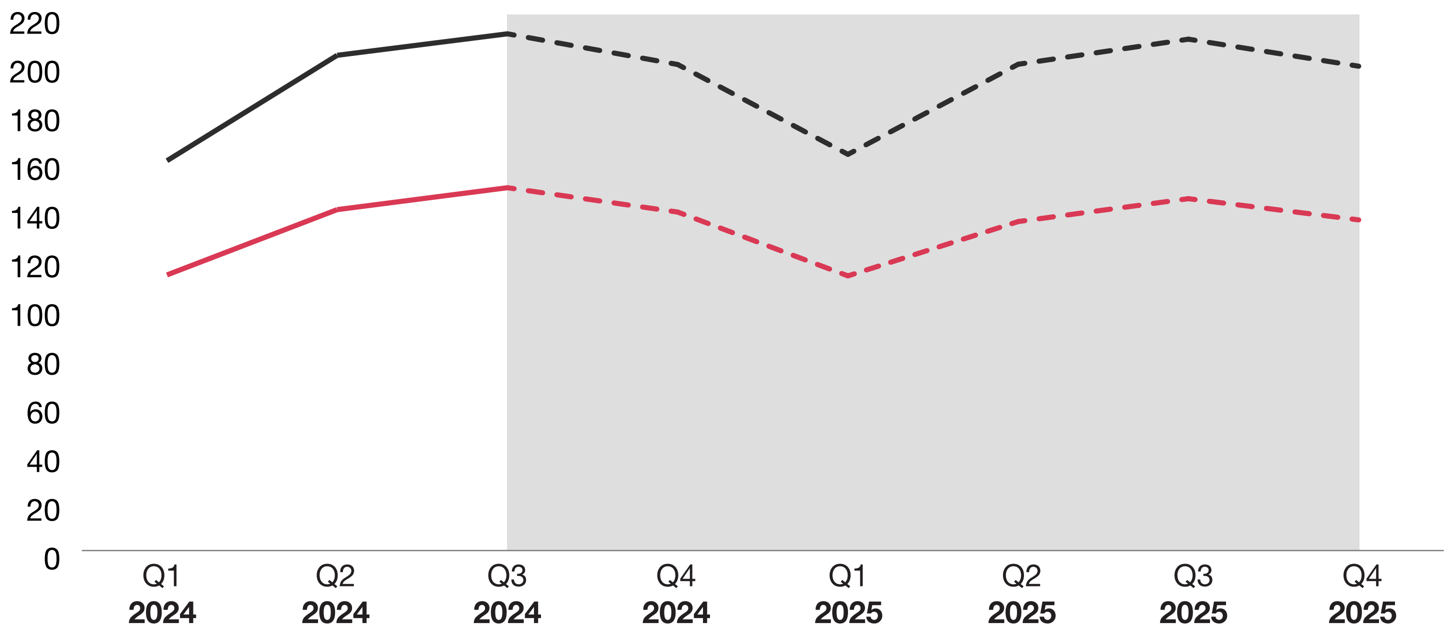
We expect RevPAR to remain stable, driven by occupancy growth and a marginal decline in ADR

Key:
Projection data — Projection
Historical — Real

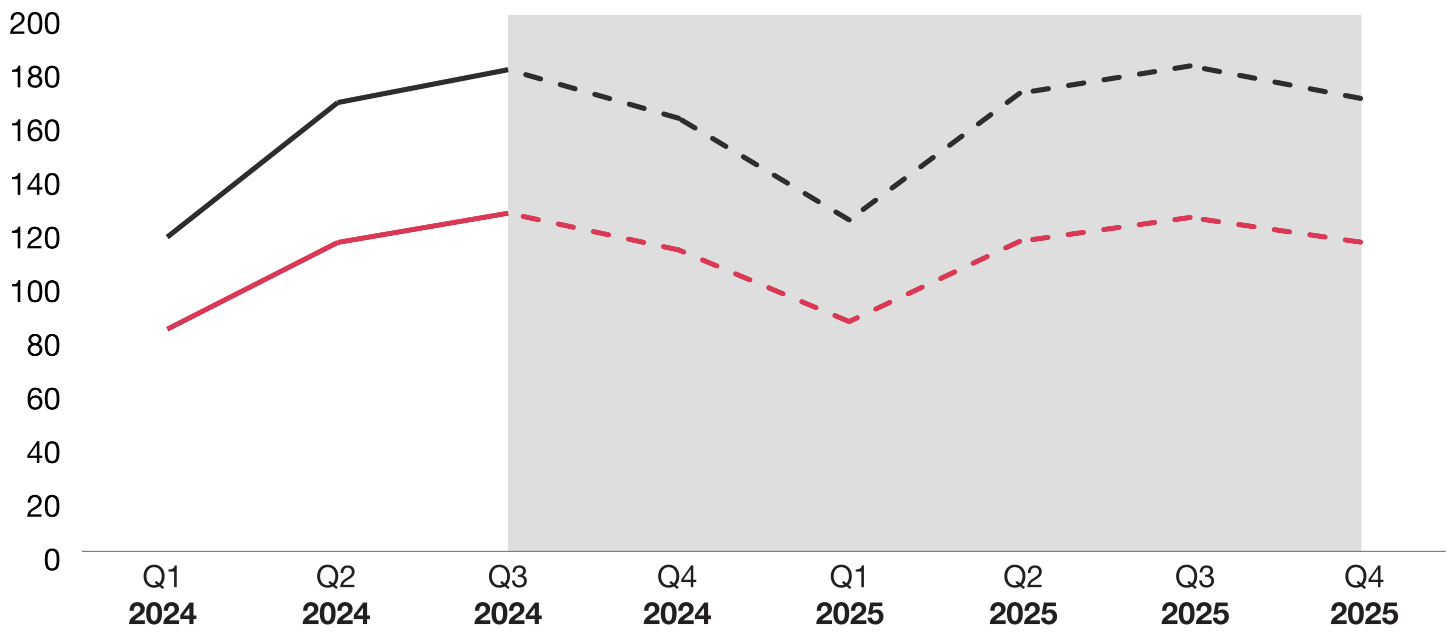
Occupancy, London



Average daily rate, London



Revenue per available room, London



	Occupancy	
	Level (%)	Growth (YOY)
Q1 2024	73.0	2.3
Q2 2024	82.0	-0.1
Q3e 2024	84.6	0.9
Q4e 2024	80.9	-1.2
Q1 2025	76.0	4.0
Q2 2025	85.6	4.4
Q3 2025	86.2	1.8
Q4 2025	84.9	5.0
2024	80.1	0.4
2025	83.2	3.8

	Nominal ADR		Real ADR	
	Level (£)	Growth (YoY)	Level (£)	Growth (YoY)
Q1 2024	160.1	-1.2	113.2	-7.0
Q2 2024	203.4	-0.5	140.0	-6.1
Q3e 2024	212.2	3.3	149.0	1.1
Q4e 2024	199.6	-0.8	139.0	-2.8
Q1 2025	162.7	1.6	112.8	-0.4
Q2 2025	199.7	-1.8	135.1	-3.5
Q3 2025	210.0	-1.0	144.5	-3.0
Q4 2025	198.9	-0.4	135.8	-2.3
2024	193.8	0.3	135.3	-3.6
2025	192.8	-0.5	132.1	-2.4

	Nominal RevPAR		Real RevPAR	
	Level (£)	Growth (YoY)	Level (£)	Growth (YoY)
Q1 2024	117.2	0.9	82.8	-5.1
Q2 2024	167.3	-0.6	115.2	-6.2
Q3e 2024	179.6	4.0	126.1	1.9
Q4e 2024	161.5	-2.0	112.4	-3.9
Q1 2025	123.6	5.5	85.7	3.5
Q2 2025	170.8	2.1	115.6	0.4
Q3 2025	181.0	0.7	124.5	-1.2
Q4 2025	168.9	4.6	115.3	2.6
2024	156.4	0.6	109.1	-3.2
2025	161.1	3.0	110.3	1.1

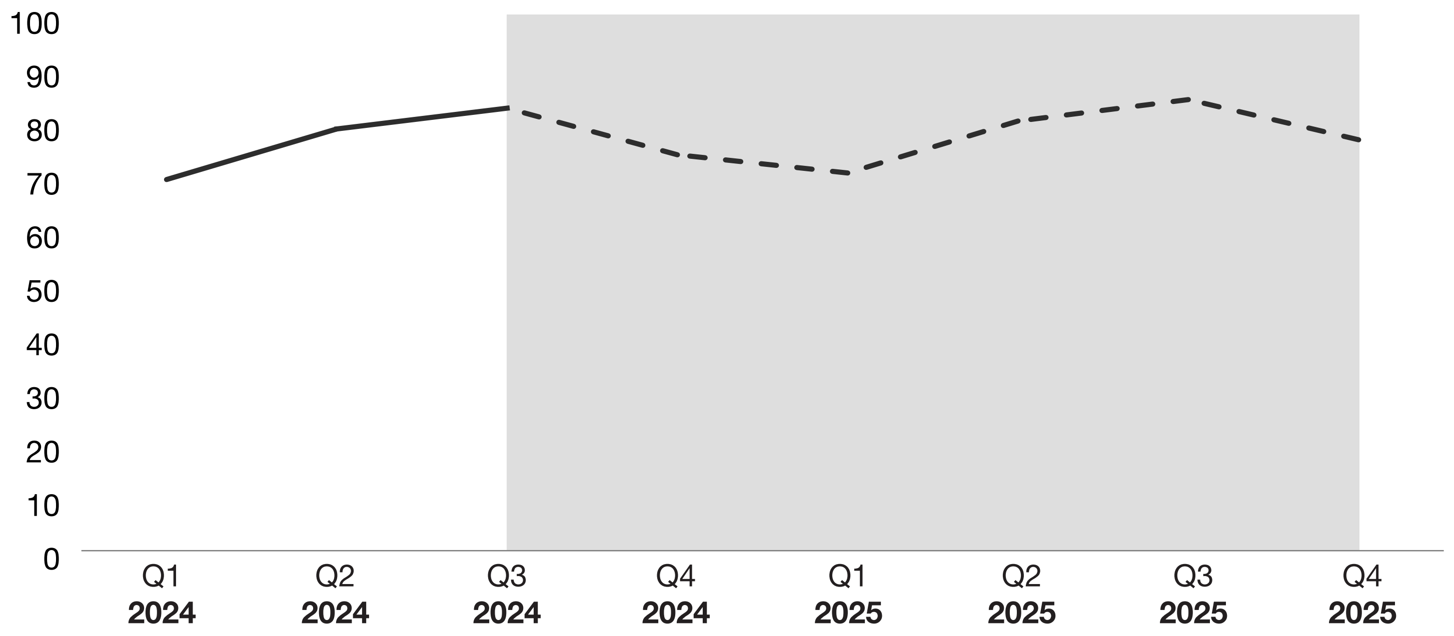
Notes: Inflation (2015 = 100). Real ADR * Inflation/100 = Nominal ADR | Sources: STR, CoStar, PwC Strategy& analysis

UK regions

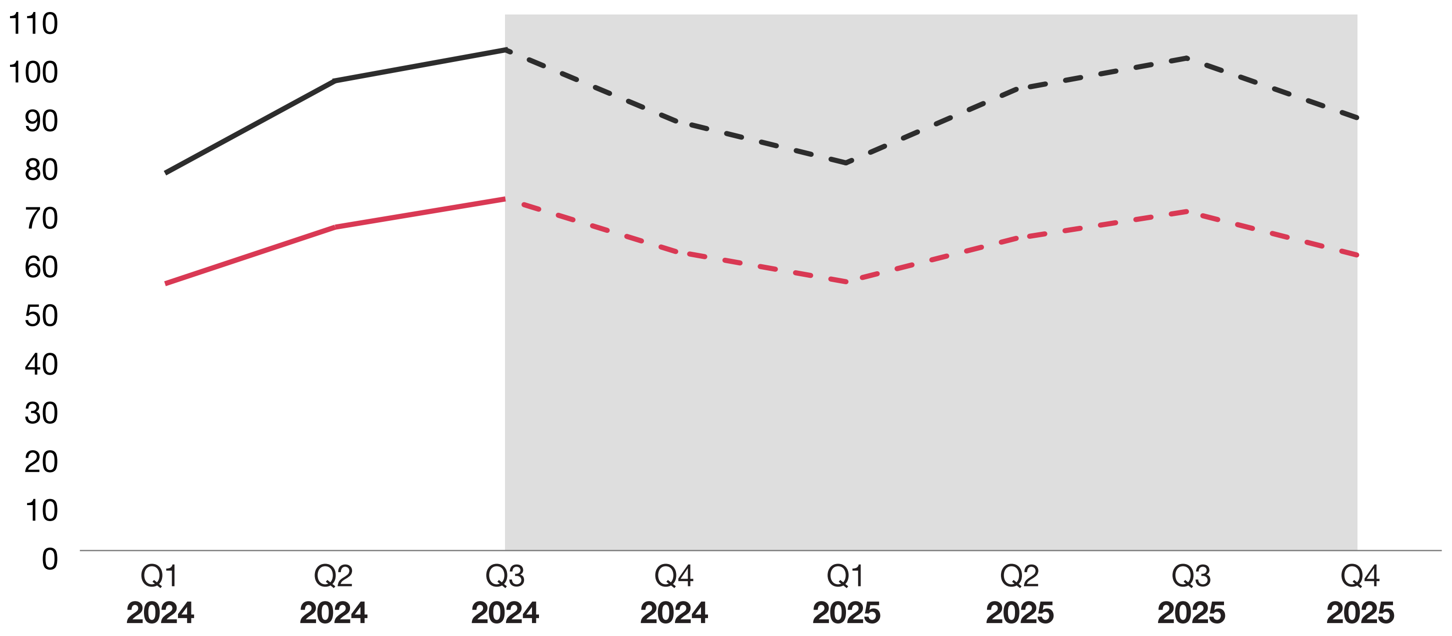
RevPAR experiences a slight increase mostly driven by demand in 2025

Key:
Projection data
Projection
Historical
Real

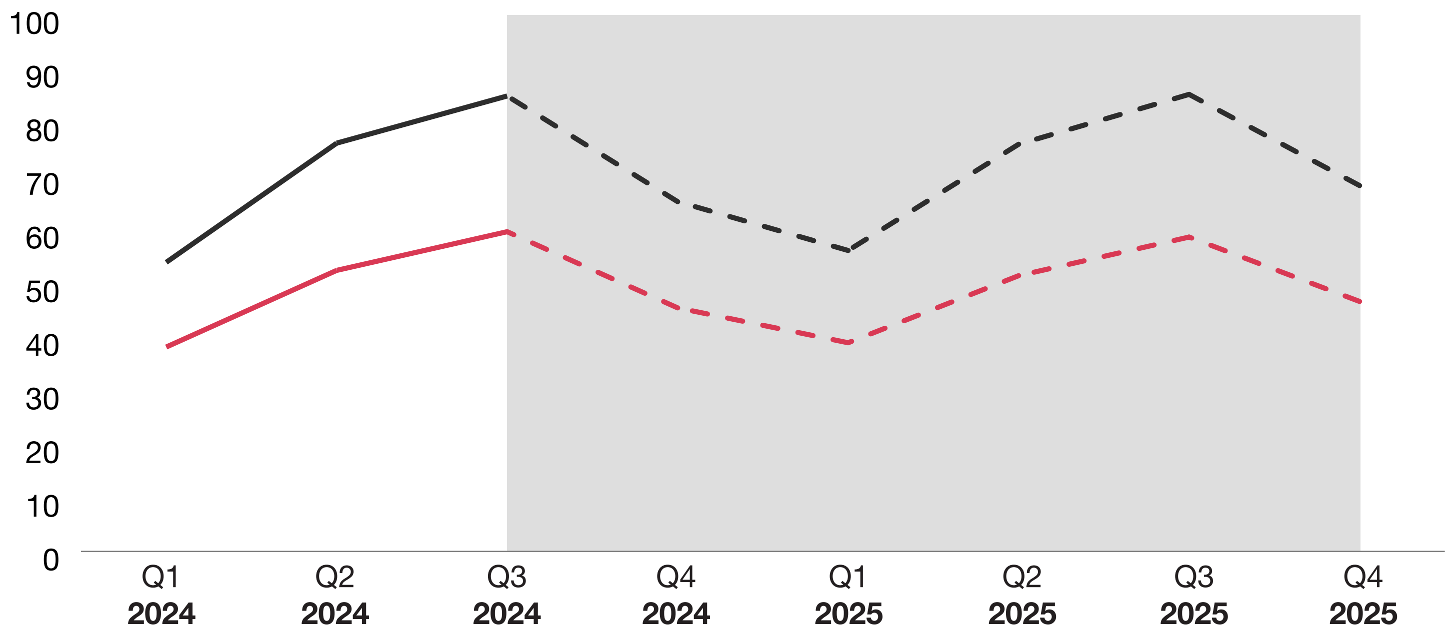
Occupancy, Regions



Average daily rate, Regions



Revenue per available room, Regions



	Occupancy	
	Level (%)	Growth (YOY)
Q1 2024	69.3	-0.1
Q2 2024	78.7	0.2
Q3e 2024	82.6	0.3
Q4e 2024	73.9	0.7
Q1 2025	70.5	1.7
Q2 2025	80.2	1.9
Q3 2025	84.2	2.0
Q4 2025	76.7	3.8
2024	76.1	0.3
2025	77.9	2.3

	Nominal ADR		Real ADR	
	Level (£)	Growth (YoY)	Level (£)	Growth (YoY)
Q1 2024	77.5	3.4	54.8	-3.5
Q2 2024	96.5	5.3	66.4	-2.9
Q3e 2024	102.8	2.0	72.2	-1.2
Q4e 2024	88.2	1.5	61.4	-0.5
Q1 2025	79.6	2.7	55.2	0.7
Q2 2025	94.7	-1.8	64.1	-3.5
Q3 2025	101.1	-1.7	69.6	-3.6
Q4 2025	88.9	0.9	60.7	-1.1
2024	91.2	3.0	63.7	-2.0
2025	91.1	-0.2	62.4	-2.0

	Nominal RevPAR		Real RevPAR	
	Level (£)	Growth (YoY)	Level (£)	Growth (YoY)
Q1 2024	53.9	3.3	38.1	-3.3
Q2 2024	76.1	5.4	52.4	-2.6
Q3e 2024	84.9	2.2	59.6	-0.9
Q4e 2024	65.2	2.1	45.4	0.1
Q1 2025	56.1	4.0	38.9	2.0
Q2 2025	75.9	-0.2	51.4	-1.9
Q3 2025	85.2	0.3	58.6	-1.7
Q4 2025	68.2	4.7	46.6	2.6
2024	70.0	3.2	48.9	-1.6
2025	71.3	1.9	48.9	0.0

Notes: Inflation (2015 = 100). Real ADR * Inflation/100 = Nominal ADR

Sources: STR, CoStar, PwC Strategy& Analysis

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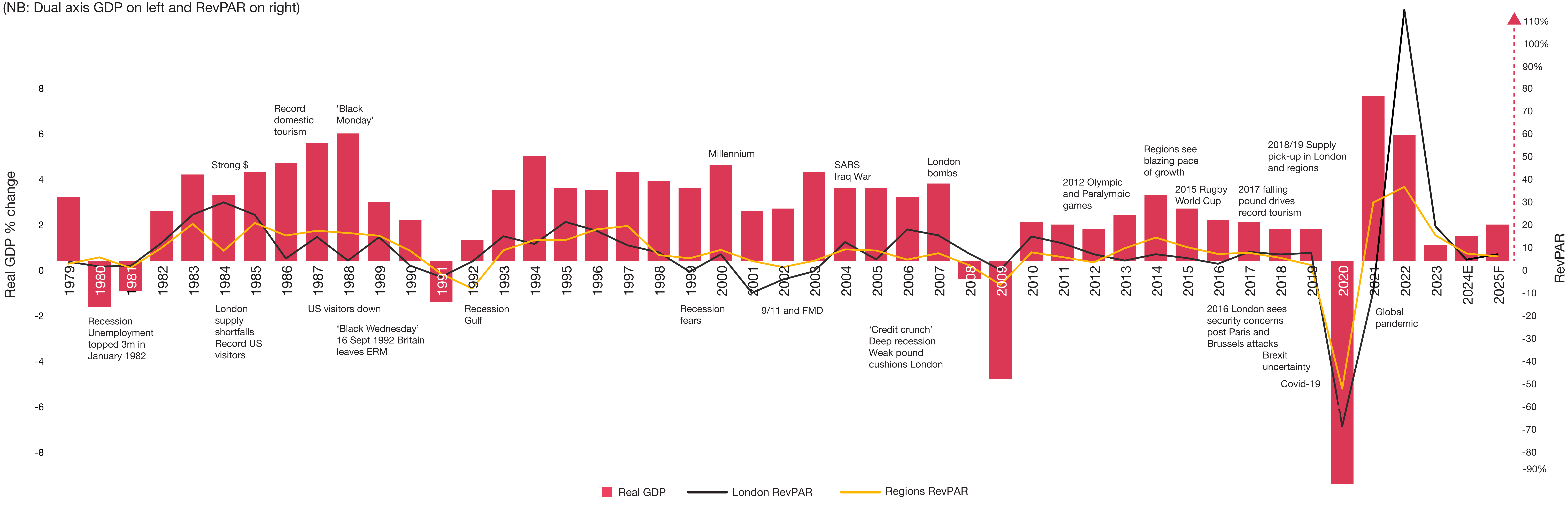
UK historical performance

Forecast low inflation and GDP growth sees muted RevPAR growth

Real GDP growth, revenue per available room (RevPAR) 1979-2025F

(NB: Dual axis GDP on left and RevPAR on right)



Source: Econometric forecasts: PwC Nov 2024 Macroeconomic data: National Statistics Benchmarking data: Hot Stats, STR Aug 2024

Methodology

We have refreshed our econometric model to combine historical information with forecasts for several indicators, including macro-economic variables, international passenger numbers and stringency measures.

	Assumptions
London and Regions	We assume that domestic and international travel will not yet reach pre-pandemic levels in 2025. As the forecasts for 2024 have been downgraded and post covid travel demand has subsided, we assume that global tourism and air travel passenger numbers in the UK will remain at **98% of pre-pandemic levels by Q3 and Q4 2024, and 99% by Q4 2025**.
Regions	With inflation predicted to hover around 2%,the Bank of England has cut interest rates in the first reduction since March 2020. The economic output should improve further, with YoY **GDP growth expected to be 1.1% for 2024 and 1.6% for 2025**.
General economic assumptions	With the worst of the current crisis behind us, we expect inflation to hover around the 2% target throughout 2024 as service inflation normalises. As monetary policy loosens, the economic outlook should improve further.

Our econometric modelling approach: 2024 and 2025 predictions

We conducted a literature review of academic research and tested several model specifications as part of an ongoing process to improve model performance. Based on our findings, we used the two-stage least squares (2SLS) instrumental variables approach. The 2SLS approach has several advantages, namely, it does not require any distributional assumptions for explanatory variables, e.g., variables may take a binary or non-normal form. It is also computationally simple and allows the use of diagnostic testing procedures for problems such as heteroscedasticity, unit roots and specification error. In addition, the two-stage approach allows us to estimate demand and price separately rather than projecting occupancy rates directly, recognising that these are driven by different factors.

However, the challenge of producing robust estimates using the 2SLS approach is the selection of ‘instruments’ or variables that have an effect on price, but only through their influence on hotel demand.

Our model specifications differ for London and the regions, particularly in the first stage regression where we estimate demand. Notably, for London we include the lagged demand, lagged exchange rates and changes in international passenger numbers as instruments, while for the Regions we only include UK GDP. Results from the Hansen J statistic suggest that the instruments are exogenous, and the model is valid at the 5% level. Equally, the t-tests in the first regression suggest that the variables are significant at the 5% level. This suggests that the instruments are both relevant and independent of the dependent variable.

The econometric model was used to generate forecasts for Q3 2024 up until Q4 2025, and these were generated separately for London and the Regions. Forecasts for ADR growth and hotel demand were generated using PwC forecasts of macroeconomic variables, IATA international passenger forecasts, and assumptions on the trajectory of the cost of living crisis.

We supplemented this with additional forecast data for hotel supply for London and the regions provided by AM:PM to produce forecasts for occupancy rates. Adjustments were made to ensure the comparability of STR and AM:PM data and an attrition factor was applied to simulate periodic drop-offs in room supply. RevPAR forecasts were constructed using ADR, demand, and supply forecasts.

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Thank you

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