

## From recovery to expansion: opportunities for growth of the UK hotel sector in 2025



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[Credit: Zedwell Hotels]

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Louise Gillon, head of hotel finance at [Leumi UK](#), reflects on the UK and European hotel markets and shares her outlook for 2025.

As 2024 has drawn to a close, the UK hotel sector finds itself in a position of cautious optimism, ushering in 2025 in good health. Following a strong rebound from the challenges of Covid-19, the industry has firmly proven its resilience and adaptability. While 2024 was marked by stability rather than the explosive growth of 2023's post-pandemic travel surge, the groundwork has been laid for a dynamic year ahead, shifting gears from recovery to expansion.

The sector entered 2024 with RevPAR already at its peak, following the "revenge travel" boom of 2023. With pent-up demand satiated and excess lockdown savings largely spent, the pace of growth moderated. However, a stabilisation of operating costs offered welcome respite for hoteliers managing profitability, short lived as it may be.

All in all, the enduring demand for travel alongside the normalisation of international business and tourism flows has ensured the industry's buoyancy. Domestic travel has held steady, while European visitor numbers showed resilience.

2025 is set to benefit from a resurgence in international travel from important under-represented nations, driven by China as outbound tourism at last normalises. Chinese tourists represent a significant opportunity for the UK's hospitality sector following a prolonged absence. At the same time, US tourism, following a hiatus tied to election-year dynamics, is expected to reaccelerate, bolstering both leisure and business segments.

There has been a permanent shift in the frequency and pattern of business travel, but it continues to present opportunities. Companies now typically favour fewer but longer business trips, driven by sustainability goals and efficiency considerations, and that is supporting the growing appeal of new accommodation formats which we welcome to the market.

While demand signals appear strong, the hospitality sector is facing some fresh headwinds. Staffing continues to be a major challenge, while the sector's chronic workforce shortages are exacerbating cost pressures, prompting operators to explore efficiencies wherever possible.

The looming impact of the Budget further complicates the outlook. Rising labour costs caused by the double header of minimum wage increases and higher National Insurance contributions will put additional strain on margins, with payroll already representing 35 per cent of hotel operating costs. These factors underscore the importance of innovative operating models and strategic investments in more cost-efficient accommodation formats.

Operators are increasingly turning to creative solutions to help them adapt to new challenges, with limited-service offerings gaining prominence. Among the most noteworthy asset classes that Leumi UK has been financing include serviced apartments and micro-hotels, with each format offering a compelling proposition for operators and guests alike in the current market.

**Serviced apartments** blend the comforts and facilities of a home with the added service provisions and amenities of a hotel, making them an attractive proposition for long-term guests and corporate clients looking for more space. By requiring fewer staff and benefitting from extended stays, serviced apartments achieve higher profit margins and operational efficiency than more traditional formats.

From a lending perspective, the business case for serviced apartments is compelling and we support increased supply of this format. However, the primary barrier to entry lies in planning constraints, where strict compliance with hotel rather than residential tenancy regulations can limit development. With supportive policies and expert guidance, this segment has the potential for significant expansion.

**Micro-hotels** are at the other end of the scale, being highly compact yet functional. There is a clear market for this type of product providing it has an exceptional city centre location, catering to travellers seeking an affordable, central place to stay. Their minimalist design and effective use of space appeals to a diverse clientele, from budget-conscious tourists to frequent business travellers who are in town a couple of days per week and require an efficient accommodation option close to their office.

Brands such as Four Points Express by Sheraton have already made strides in the micro-hotel space as they explore denser offerings, while independent operators such as [Zedwell](#) are further demonstrating the concept's viability in response to a growing focus on conversion rates.

Looking ahead, several factors are expected to drive investment activity in the UK hotel sector in 2025:

- 1. Refurbishment and repositioning:** With new developments constrained by construction costs, operators are focusing on upgrading existing properties. Sustained RevPAR performance over recent years has justified investment in refurbishments, enabling hotels to remain competitive and meet evolving guest expectations.
- 2. Office-to-hotel conversions:** The pandemic-induced shift in office utilisation has spurred interest in converting underused office buildings into hotels. While planning and economic considerations remain challenging, the potential for such conversions, particularly in key cities such as London, Edinburgh, and Manchester, is substantial.
- 3. Demand-supply dynamics:** Demand for accommodation continues to outpace supply in key markets such as London, creating opportunities for strategic investments. High-performing city centres, coupled with overdue upgrades across existing stock, present a fertile landscape for investors and lenders.
- 4. Innovative offerings:** The rise of new accommodation formats – from serviced apartments to micro-hotels – signals a shift in guest preferences. These models not only address operational challenges but also tap into niche markets, driving higher returns for operators.

The UK hotel industry has consistently demonstrated its ability to adapt to shifting market conditions. Challenges and uncertainties may persist, but the sector's proven resilience remains a cornerstone of its appeal. Operators are embracing innovation – whether through new formats, asset repositioning, or transformative conversions – and the investment opportunities embedded in the sector as operators work to stay relevant inspires confidence.

While income growth looks set to moderate in the year ahead, this should be accompanied by gradually improving yields, driving value growth and transaction activity in 2025. For stakeholders across the hotel value chain, the year ahead offers an exciting chance to shape a bright future for hospitality in the UK.

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