UK Hotel Trading Performance Review

Knight Frank

2025

As the pendulum swings between lower revenue growth and the weight of rising costs, the sector's stoic resilience to adapt, automate and flex is likely to be astutely tested. Our outlook for 2025 is being realistic, yet cautiously optimistic.

www.knightfrank.com/research/category/property-sector/hotels

Foreword

Following an exceptionally strong year of growth in 2023, reaching above this level of profitability in a landscape of lower revenue growth, was always going to be a challenge. Yet, in 2024 the resilience of the UK hotel market delivered another strong and profitable year of trading.

In 2024, the continued recovery in hotel occupancy, supported by robust levels of leisure and corporate led demand, delivered respectable revenue growth and combined with certain cost pressures easing due to the decline in inflation, this led to strong growth in profits across most markets.

Faced with a mix of testing macro-economic circumstances which represent a collection of risks, the UK hotel sector is facing a potentially volatile period of trading, with the increase in payroll costs, rise in employment taxes, and potentially weakening consumer confidence putting pressure on profitability, and the ability to deliver memorable, personalised and effective guest experiences.

The severity of these factors is currently unknown, but mitigating against these threats through pro-active, creative and strategic management, will present opportunities for growth, serve to protect cashflows and navigate the route to future success.

Whilst London and regional UK were generally considered to be close to reaching a stabilised level of occupancy in 2024, further occupancy growth is possible, with not all sectors having returned to pre-pandemic levels. Meanwhile, the ADR came under increasing pressure as the year progressed, and in December the dip in inflation, was accounted for by the fall in hotel prices and smaller rises in airfares than forecast, thus indicating signs of weakening growth. Looking ahead, the ability to maintain occupancy at a similar level to 2024 will be critical, whilst continuing to drive ADR growth as cost pressures continue, may be a tough challenge.

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FUTURE DRIVERS – TAILWINDS

- A weaker pound supporting inbound visitor flows and investment.
- Lower cost of debt as interest rates continue to decline.
- Demand for experience-led and leisure stays boosted by real wage growth.
- Expansion of the global middle class – resurgence of travel from Asia and the return of outbound travel from China.
- The rapid rise of AI brings new opportunities – tailored, personalised experiences, that builds loyalty.

CHALLENGES – HEADWINDS

- The effects of the rising minimum wage and increased NIC employer taxes.
- Consumer spending to remain muted, as cautious attitude adopted.
- Increased business rates, with reduced relief available and the multiplier increasing.
- Inbound travel impacted by new eTA requirements and rise in Air Passenger Duty.
- Growth in direct transatlantic routes to Europe, lead to more long-haul passengers bypassing London.

"London's upper-upscale hotels have outperformed the wider London market both in terms of occupancy and ADR."

KNIGHT FRANK'S TREND FORECAST FOR 2025

Critical to sustaining revenue growth and profitability, the key trends in 2025 will include:

- Embracing technology and automation to reduce costs and optimise efficiencies in operations.
- Intelligent scheduling of staff and increased level of upskilling.
- Leveraging the use of data to personalise experiences.
- Diversify revenue streams to expand the service offering and attract new sources of demand.
- Focus on sustainable practices, encompassing wastage, energy efficiencies and sustainable design practices to support operational efficiencies and long-term cost savings.
- Collaborate and engage in local partnerships to remain competitive.
- Soft refurbishment and asset management of space – lower interest rates likely to increase demand for capex funding.

In partnership with HotStats, we have produced our latest, comprehensive review of the UK's hotel trading performance, with the full calendar year 2024 under review, providing a unique insight into hotel revenues, expenses, and profitability.

Key Performance Indicators

Calendar Year 2024 v 2023

LONDON

RevPAR	TRevPAR	GOPPAR	GOP%
£187	£241	£104	42.9%
▲ 3.5%	▲ 3.3%	▲ 5.6%	▲ 0.9%*

REGIONAL UK

RevPAR	TRevPAR	GOPPAR	GOP%
£79	£126	£38	30.3%
▲ 3.6%	▲ 4.5%	▲ 7.2%	▲ 0.8%*

*GOP Margin % point change

Source: HOTSTATS

The Resident, Edinburgh

Occupancy / ADR / RevPAR

A resilient trading performance has supported the ongoing rise in payroll costs, despite occupancy growth across regional UK being impacted by robust supply growth.

LONDON

It's been another strong year of trading for the London hotel market, with occupancy outperforming our projections made in our previous trading review (September 2023). The increase in occupied room nights has largely been driven from the continued recovery of overseas visitors, strong growth in meetings and events, as well as key events such as the Farnborough Airshow, and a continued robust short-stay staycation market, with a strong bias towards London's luxury and high-end boutique-lifestyle hotels.

For the full year 2024, London achieved an average occupancy of 82%, equalling its pre-pandemic performance, and year-on-year an uplift of 3.4 percentage points of occupancy was recorded, whilst ADR declined by almost one percent to £228. Overseas passenger arrivals in

82%

For the full year 2024, London achieved an average occupancy of 82%, equalling its pre-pandemic performance

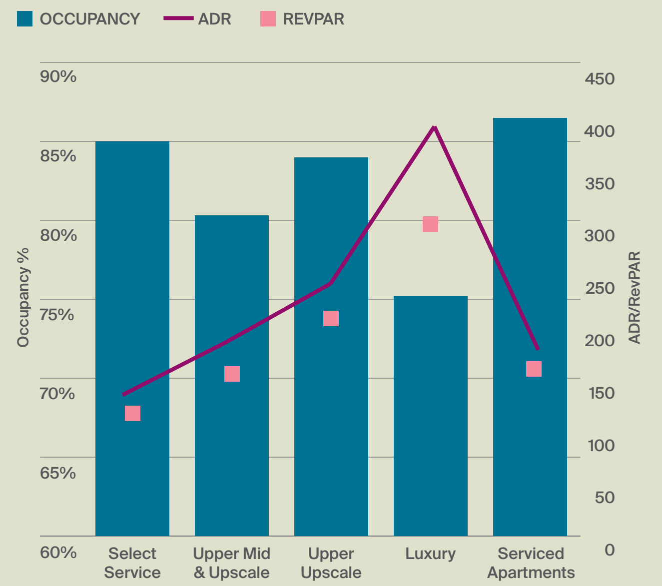
2024 to London's three largest airports, recorded 4.4% growth year-on-year, of which almost 25% of these arrivals originated from North America. Booking lead times have remained short, but have increased over the past 12 months, driven in part by the increase in international bookings.

London's upper-upscale hotels have outperformed the wider London market both in terms of occupancy and ADR. Occupancy for this segment increased by 4.6 percentage points to 84% and ADR at £239 nudged very slightly ahead of 2023. By contrast, all other segments suffered a decline in the ADR, with the London market seeing ADR fall by just under one percent versus full-year 2023.

London's luxury hotels recorded a 3.9 percentage-point uplift in its occupancy in 2023, rising to 75%, but opportunity exists in 2025 to move closer to the pre-pandemic performance of 79%, with the anticipated resurgence of outbound travel from key Asian markets. Nevertheless, in terms of the ADR performance, the surge of new luxury bedrooms in London has hindered performance, with ADR in 2024 some 3.6% lower than compared to 2023. Yet London's luxury hotels offer by far the strongest hedge against inflation (in terms of ADR), with 2024's ADR just 1.8% lower in real terms, than compared to 2019.

London hotels – key performance indicators

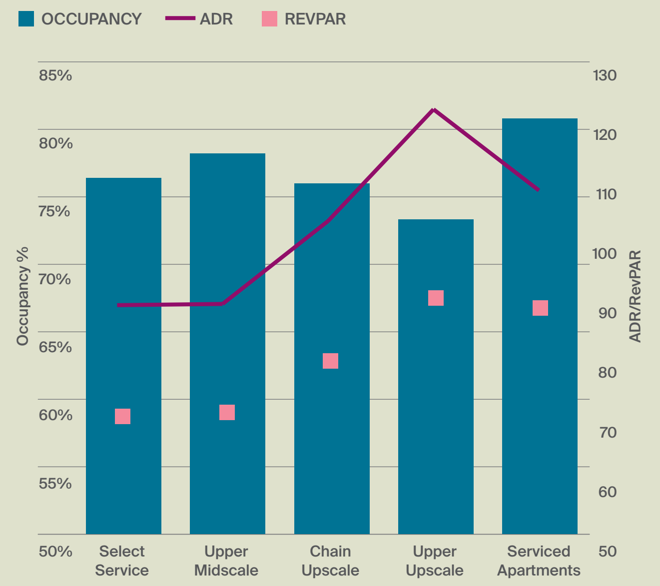
Full Year 2024



Source: HOTSTATS

Regional UK hotels – key performance indicators

Full Year 2024



Source: HOTSTATS

Meanwhile, at 85%, London's select service hotels have successfully recovered in full their occupancy, back to 2019 levels. Yet, with the increasingly tech-savvy, budget-conscious leisure customer, seeking out competitively priced, flexible deals, upholding the strong ADR growth of recent years ended abruptly, with a 2.9% decline in the ADR in 2024.

Overall, the London hotel market achieved a respectable performance for the year. Annual growth in occupancy of 4.5 percentage points was achieved during Q1-2024, but slowed to 2.2% growth in Q4. This was countered, however, with the decline in ADR restricted to the first six months of the year, albeit with the rate being held level during the second half of the year. Annual RevPAR growth was achieved in each quarter, with Q1 and Q3 recording just under 5% growth, whilst Q2 and Q4 were notably weaker averaging around 2.6% growth.

Mandarin Oriental Mayfair, London

REGIONAL UK

Across regional UK, another robust year of trading performance was recorded, and was very closely aligned with our forecasts from the previous trading review. Year-on-year, for the full calendar year of 2024, regional UK hotels achieved a one percentage point uplift in occupancy to 76%, moving closer towards a stabilised level of performance, but with occupancy remaining two percentage points lower than in 2019.

As the inflationary environment weakened, strong recovery in transient corporate demand, meetings and events, as well as the continued recovery of international travel served to support ADR growth. The top five leading regional airports recorded an annual uplift of almost 7% in overseas arrivals for the year. In 2024, annual ADR growth of 2.3% was recorded, to average £105 for the full year, which in real terms (after accounting for inflation) was on par with 2019 pricing.

Leveraging the use of AI has without doubt played a strong part in supporting trading performance. Whilst music concerts such as Taylor Swift's The Eras Tour, as well as sporting events and city-wide conferences have all served to boost hotel demand, advancements in digital insight, with more hotels adopting dynamic pricing strategies, have provided hoteliers with the tools required to maximise revenue growth at peak times, and to help remain competitive at slower times.

Throughout 2024, the regional UK market has continued to drive respectable RevPAR growth, with most of the gains in occupancy made during shoulder months, with the months of February, May and November showing the most robust uplift. Meanwhile ADR growth was strongest during the first half of the year, averaging 3.4% growth, versus 2.5% growth in H2. Consequently, RevPAR growth of 4.5% was achieved in H1, slowing to 2.9% growth in H2. Also, of significance was the notably stronger TRevPAR growth achieved throughout 2024, indicating a recovery in non-Rooms departmental revenue.

VARIATION IN PERFORMANCE OF THE REGIONAL HOTEL SUB-MARKETS

Strong variation between the performance of the various sub-markets across regional UK has been obscured when looking at total market-wide average performance data.

For example, strong recovery of the corporate and MICE segment, supported a 4.6 percentage point uplift in occupancy for the golf & spa hotel submarket to 69%, albeit its occupancy remained some four percentage points below its pre-pandemic level.

Meanwhile, upscale and upper-upscale hotels, benefitting from their broader facilities, achieved some of the strongest occupancy growth across regional UK, with the MICE market continuing to evolve, shaped by emerging trends and innovative practices, combined with the ability of these full-service hotels to deliver highly desirable experiences, without the steep costs associated with more luxury products.

The strong increase in occupied room nights achieved by these high-performing sub-markets has been further supported by respectable ADR growth, which in turn has delivered impressive RevPAR growth. As such, golf & spa hotels achieved double-digit RevPAR growth of 10% in 2024, whilst the upscale and upper-upscale hotels recorded RevPAR growth of close to 6%.

FORECASTS AND OUTLOOK – LONDON AND REGIONAL UK

Whilst acknowledging the significant challenges surrounding the current macro-economic environment, particularly the implications to businesses in the short-term of the UK autumn Budget, we consider that by focusing on both revenue generation and having astute awareness and proactive management of costs, the UK hotel sector can face the challenges, whilst maintaining the momentum of ongoing growth. Realistic but optimistic, is our stance for 2025.

> "London's ADR is forecast to grow by 3.5% in 2024, with the pressure to increase room rates borne out of the forthcoming rise to payroll costs."

Advancements in technology and leveraging the use of data to optimise upselling potential through early check-in, late check-outs, room-upgrades or with a specific amenity or view, are various ways that operators can drive additional revenue growth. New automated upselling solutions that dynamically pull data and specifically linked to the hotel's inventory, can be used to identify unsold rooms that are available for upselling, optimising both price and at the right time for optimum conversion.

Whilst more than 5,000 new rooms are expected to open in London in 2025, we consider the forecast uplift in overseas visitors to the Capital from the US and Asia, will allow market-wide occupancy to remain at a similar level to 2024, at 82%.

Whilst our forecast for occupancy is that it will remain relatively flat, our predictions for London's ADR is forecast to grow by 3.5% in 2024, with the pressure to increase room rates borne out of the forthcoming rise to payroll costs., through hikes in the National Living Wage and employers' NI contributions, and with inflation now expected to rise more strongly in 2025. Whilst the significant quantum of new supply in the luxury segment will in time serve to support an increase in the wider market's ADR, this has not been a factor in our forecasts for 2025.

Meanwhile, for regional UK, we consider the market is broadly operating close to a stabilised level of occupancy. Whilst in some markets, newly renovated hotels are due to re-open, new supply overall is relatively constrained in 2025. We have forecast occupancy at 76% for the year ahead, along with ADR growth of 3.1%. Like London, the above inflationary wage cost environment will add pressure to operators to optimise revenue growth, but with the need to drive cost efficiencies if profit levels are to be sustained.

FORECAST

ANNUAL HOTEL KPIs

	LONDON Occupancy	LONDON ADR (£)	LONDON Revpar (£)	REGIONAL UK Occupancy	REGIONAL UK ADR (£)	REGIONAL UK Revpar (£)
2019	81.7%	190	155	77.4%	81	63
2022	67.8%	223	151	69.9%	98	68
2023	78.7%	230	181	74.5%	103	77
2024	82.2%	228	187	75.4%	105	79
2025 Forecast	82.2%	236	194	76.3%	109	83

% ANNUAL CHANGE

	LONDON Occupancy (points)	LONDON ADR (£)	LONDON REVPAR (£)	REGIONAL UK Occupancy (points)	REGIONAL UK ADR (£)	REGIONAL UK REVPAR (£)
2019	-0.8%	4.9%	3.8%	0.1%	-0.6%	-0.5%
2022	37.2%	37.0%	203.8%	23.4%	9.2%	64.3%
2023	10.9%	3.1%	19.7%	4.7%	5.2%	12.3%
2024	3.4%	-0.8%	3.5%	0.9%	2.4%	3.6%
2025 Forecast	0.1%	3.5%	3.6%	0.8%	3.1%	4.3%

Source: HotStats / Knight Frank forecasts

UK hotel supply

Increasing supply levels set to challenge the sector in the year ahead. Whilst the downward trajectory of interest rates is likely to fuel the pipeline for future growth.

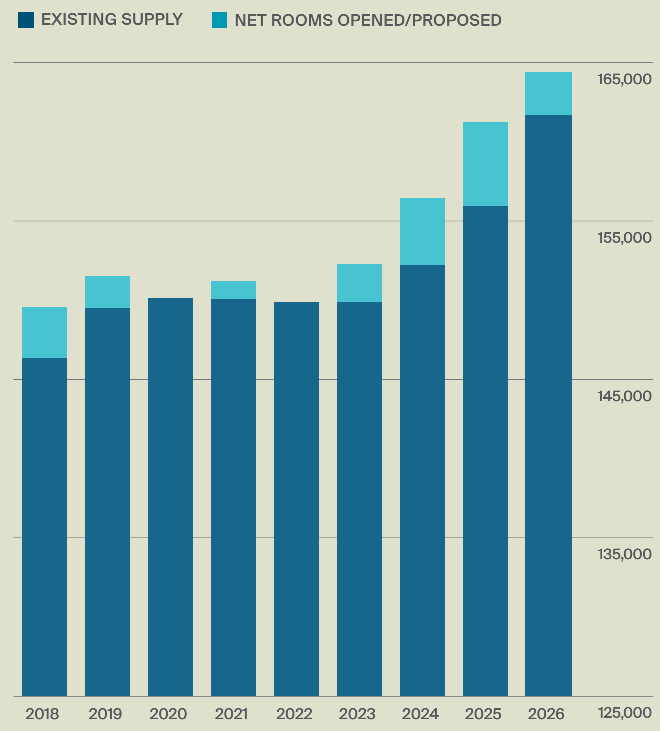
UK hotel supply grew by 2.2% in 2024, with the addition of some 15,000 rooms either returning to supply or through new hotel openings and after consideration for hotels which ceased trading. Total UK hotel supply rose to over 705,000 rooms, returning to 2019 stock levels.

Hotels being used for asylum accommodation has influenced hotel supply in recent years, with our research indicating that at its peak, during the summer of 2023, some 35,000 rooms were diverted away from normal hotel operations. With both the Conservative and Labour governments scaling back on the use of hotels to house asylum seekers, we estimate some 20,000 hotel rooms remain under government contracts, a quarter of which are in London. Of the hotel stock that remains 'out-of-use', some 9,000 of these rooms were from hotels which previously traded under a global brand.

London dominates the hotel development landscape, accounting for 35% of the scheduled pipeline for new openings in 2025. Through a combination of new hotel openings and hotels reopening following a refurbishment, based upon current development schedules, London is set to welcome a total of 5,200 new rooms, equating to a rise of 3.4% in supply. A further 1,800 rooms are speculated to open through hotel expansions, but not all are expected to open in 2025. London's supply growth is forecast to grow by a compound annual average growth rate of 2.3% for the four-year period between 2022 and 2026.

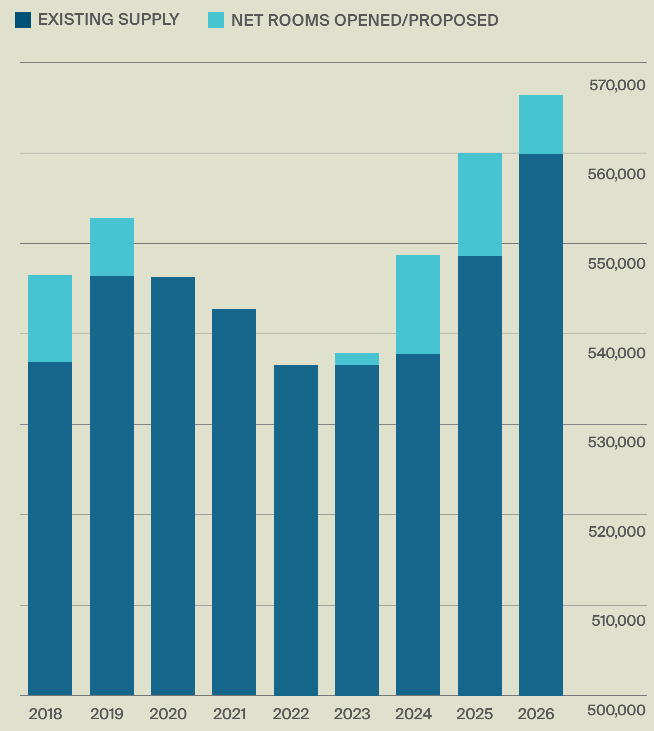
With regional UK hotel supply boosted by the return of exclusive-use hotels, supply levels grew by 2% in 2024, with a net increase of some 10,800 rooms. In 2025, similar growth is envisaged, but the pipeline will instead be dominated by new openings, with more than 9,000 new rooms forecast to open, excluding any existing hotel expansions. The regional cities of Edinburgh, Leeds, Manchester, Belfast and Glasgow

London hotel supply (rooms) historical & forecast



Source: Knight Frank Research

Regional UK hotel supply (rooms) historical & forecast



Source: Knight Frank Research

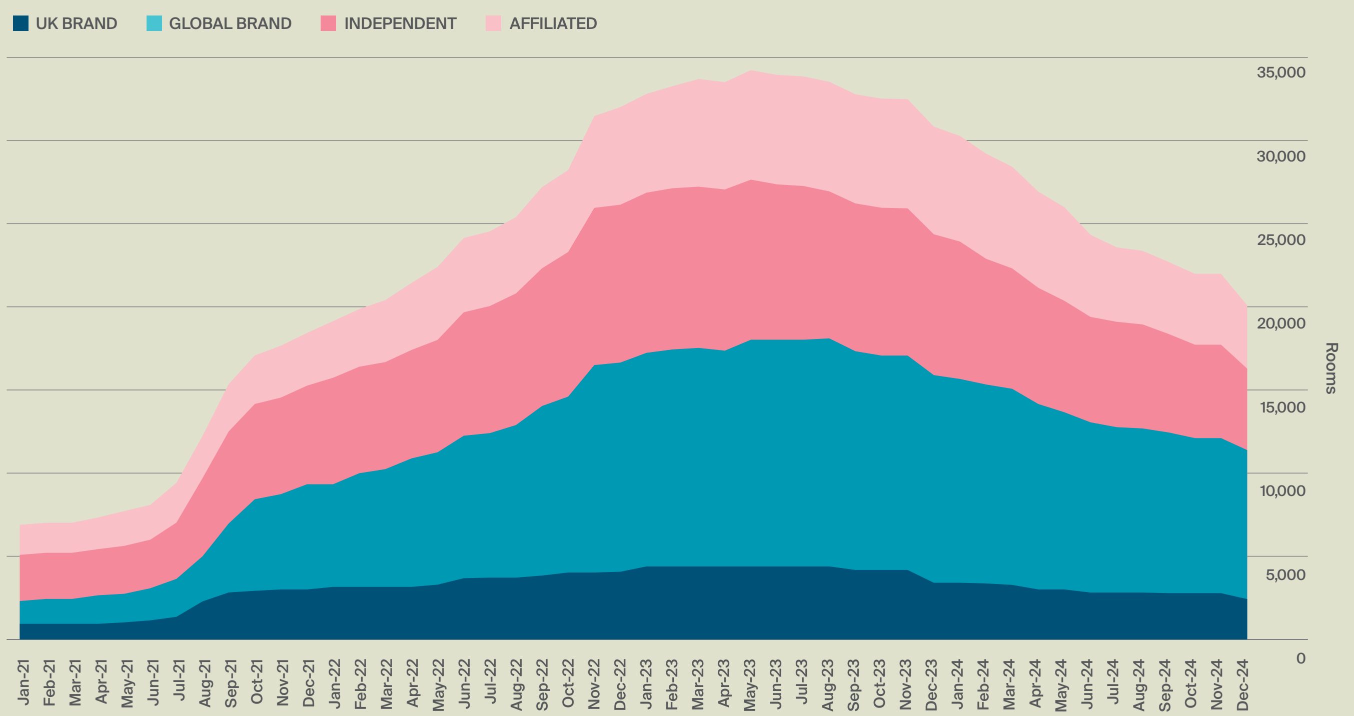
> "UK hotel supply grew by 2.2% in 2024, with the addition of some 15,000 rooms either returning to supply or through new hotel openings and after consideration for hotels which ceased trading."

Maldron Hotel Manchester, Cathedral Quarter

lead the way in terms of new supply openings in 2025, but between them they make up less than half of the regional pipeline, instead new stock will be spread across a far larger number of towns and cities. In 2025, we envisage a further 2% growth in regional UK supply, to reach more than 560,000 rooms.

Beyond 2025, the outlook for supply growth is more subdued, but as interest rates fall, more development activity is expected, with many projects with full planning consent expected to be advanced.

Evolution of hotel bedrooms used to house asylum seekers



Source: Knight Frank Research

Rooms segmentation

As hotel-tech evolves, the ability to personalise experiences and customise the guest journey is becoming increasingly tangible. Real-time data analysis is making it possible to extract meaningful insights, allowing improved operational efficiency, make informed decisions, and ultimately seek to improve the guest experience.

Hotel market segmentation is the process of sorting hotel guests into categories based on commonalities such as booking patterns, travel habits, reasons for traveling and willingness to spend. Through a strategic approach to segmentation, hotels can maximise revenue potential and pricing strategies to appeal to specific segments. Hotels can focus their efforts and resources on attracting and retaining the most valuable customers with the highest ADR. With a data-first mindset, segmentation helps optimise strategies for marketing and selling through various distribution channels strategies to different segments at the appropriate time.

With the use of HotStats segmentation data, we have provided a very high-level analysis of market segmentation, based on the following broad customer segments: transient, discount/wholesale, negotiated, corporate groups, and tour groups/contracts.

LONDON SEGMENTATION TRENDS

- Across London, the share of transient room nights (which include guests travelling for both business and leisure) has increased across most sub-markets, averaging 27% of the rooms occupied (versus 25% in 2023). As a result, the share of the revenue contribution from this highest yielding segment increased to 30% of total rooms revenue (versus 28% in 2023), but with the ADR for this segment declining year-on-year by 5% to £252.
- The share of room nights from the discount/wholesale declined to 40% (from 42% in 2023) and with a lower ADR, falling by 1% to £237, suggesting that there was weaker demand and at slower times greater discounting of the ADR to boost occupancy.

art'otel London Hoxton

> "Across London, in 2024, the share of transient room nights increased across most sub-markets to 27% of the rooms occupied and accounted for 30% of total rooms revenue."

- London has seen demand for corporate groups increase (with a 9% share of occupied rooms), and the ADR for this segment increasing year-on-year by 5%, with a similar growth in ADR achieved for all segments which involved negotiated / contracted rates.
- London's luxury hotel segment recorded a healthy uplift in demand from guests in the transient segment rising to 26% of total room nights (versus 23% in 2023), but with high levels of new supply, this was a fiercely competitive market, with the ADR for the transient segment declining by 12% to £458. Whilst the volume of discounted/wholesale rooms nights held steady, this segment also recorded a 4% decline in the ADR. Overall, London's luxury hotels recorded an annual decline in its ADR of 3.6% in 2024, but this fall was cushioned by above inflationary growth in negotiated / corporate group bookings.

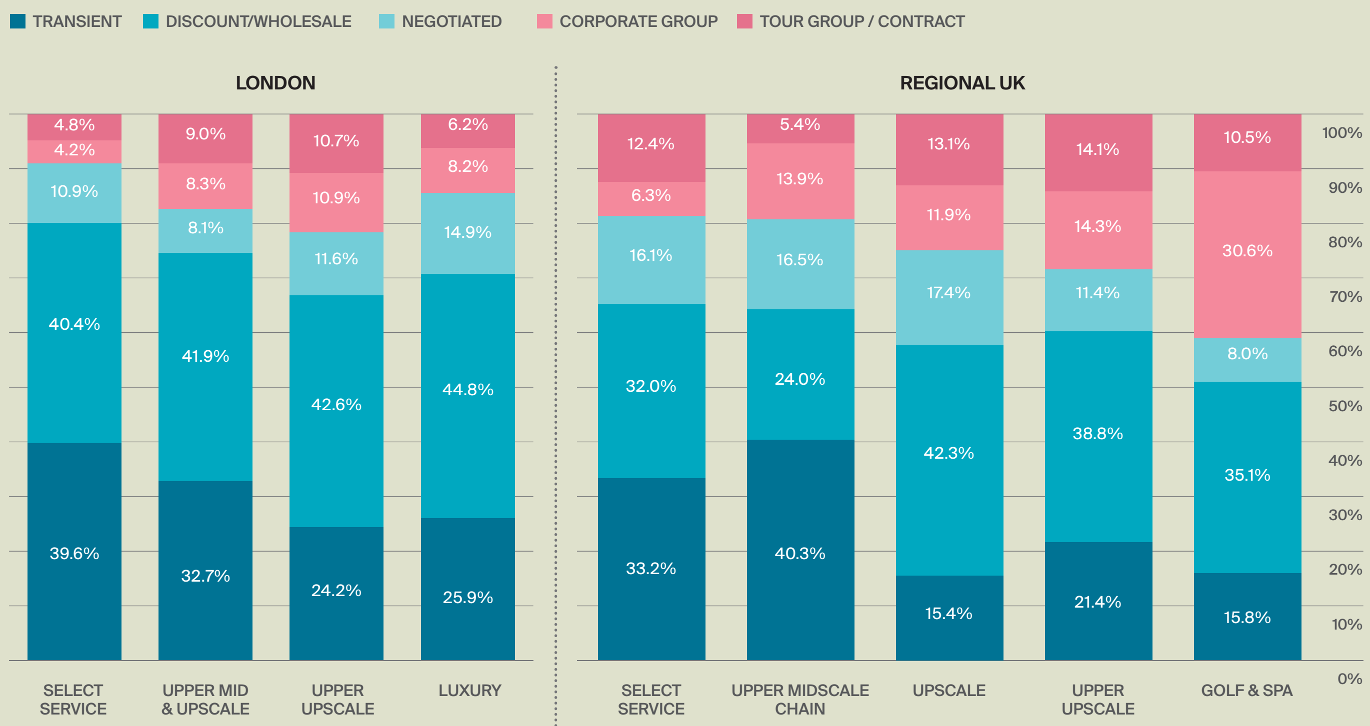
REGIONAL UK SEGMENTATION TRENDS

Across regional UK, resilient transient and discount/wholesale segments, maintained their share of room nights in 2024 versus the previous twelve months, totalling 62% of rooms occupied, but with only marginal growth in the ADR as leisure demand showed signs of increased rate sensitivity. Instead, out-sized revenue growth was generated from other segments, namely with the ramp up in demand for group and business travel.

- The recovery in demand from corporate group business has seen this segment's ADR match the pricing achieved in 2019 in real terms.
- The corporate group's contribution to total regional UK's RevPAR increased by 18% in 2024, with certain sub-markets recording a far stronger uplift in the contribution from this segment. Upper-midscale hotels and select service recorded an increase between 36% and 37% and golf & spa hotels achieved a 22% uplift.
- With the gradual return to the office, hotels have seen recovery in demand from the Negotiated corporate segment. Facilitated by hotels increasingly pushing dynamic pricing for this segment, a 5% annual increase in the ADR was recorded on average across all regional UK hotels.
- Demand for association, and convention meetings recorded strong ADR growth across all regional sub-markets, with an average 8% rise in the ADR.
- Government-led bookings, whilst far fewer in number, also led strong ADR growth averaging 9%, with an ADR of £70, ahead in real terms by more than 20% compared to 2019 prices.

Segmentation mix of occupied room nights

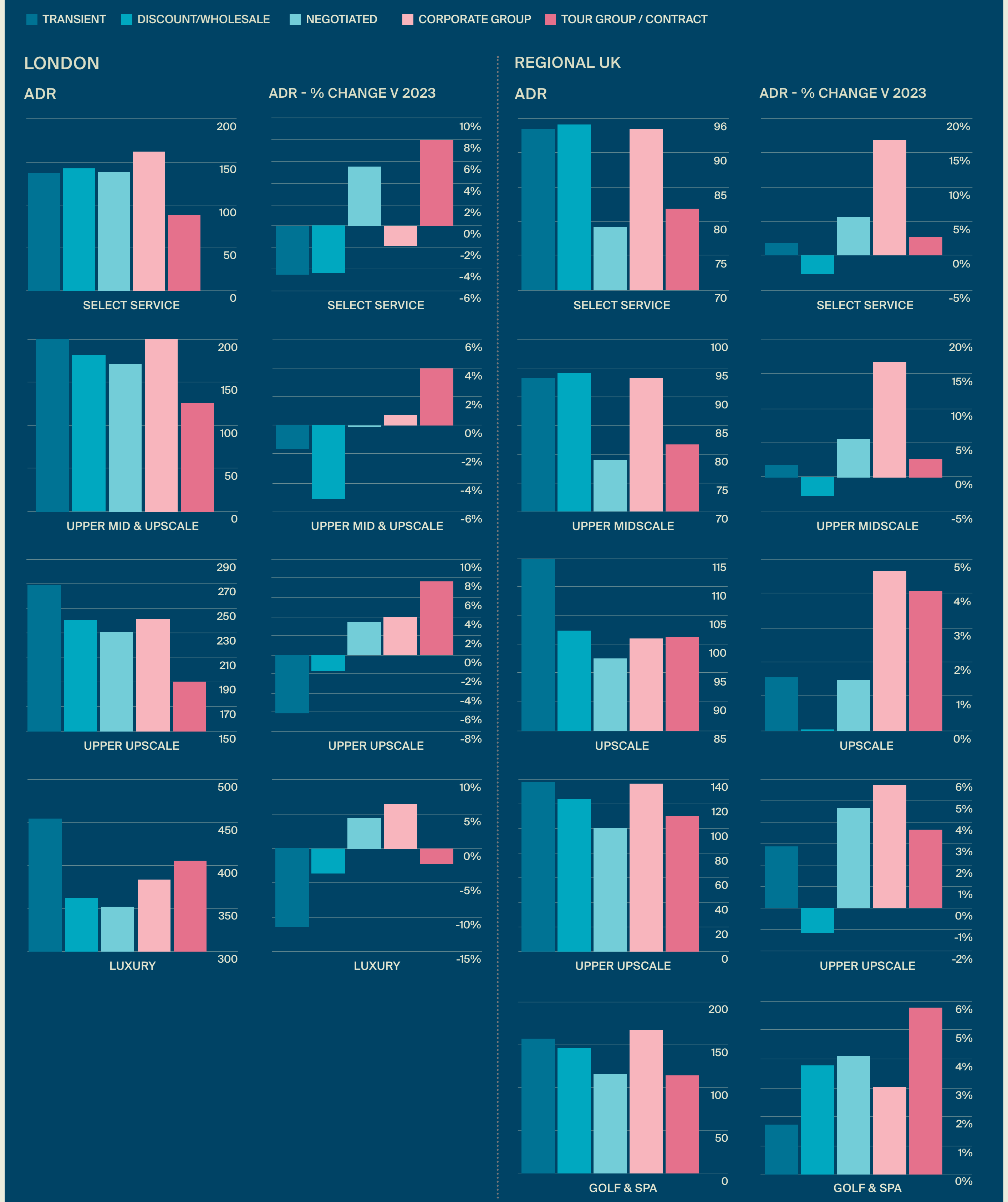
FY 2024



Source: HOTSTATS

ADR by market segment

FY 2024



Source: HOTSTATS

Rooms expenses

Payroll costs, whilst significant are only part of the equation, with the rise in servicing the cost of laundry an increasing consideration, as suppliers pass on the increased cost burden.

LONDON

Despite continued rising costs, for the third consecutive year the profit margin for the Rooms division has remained static at approximately 75% across all London hotels. The robust rise in occupancy has facilitated operational efficiencies, in terms of optimising staffing levels and reducing the variable cost per occupied room. As such, the total rooms cost POR was some 1.7% lower in 2024 than compared to the preceding twelve months.

However, Rooms payroll costs are creeping up which is apparent on a PAR basis (increasing by 2.8%), with payroll costs accounting for almost 49% of the total Rooms Expense, causing total departmental costs to rise year-on-year by 2.6% per available room.

Rooms revenue growth has been fundamental in keeping the Rooms profit margin on par with the previous year. Evidence of this is most apparent from London's select service hotels, where despite RevPAR being on par with the previous year, and a reduction in non-payroll related costs, the 2.5% increase in payroll costs PAR led to a lower departmental profit margin of almost half a percent in 2024, which is significant in a rooms-driven operating model.

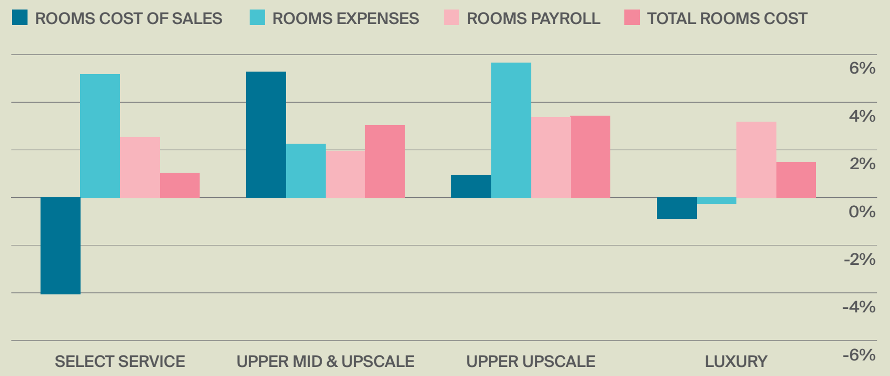
The challenging cost environment is hitting select service hotels the hardest, with Rooms departmental profits in 2024 some 4.4 percentage points lower than 2019. On average, the London hotel market is now achieving a Rooms departmental profit margin some two percentage points lower than in 2019.

REGIONAL UK

Over the past 12 months, across regional UK the departmental operating profit margin in Rooms has been broadly stable, averaging 67% of total Rooms revenue, with marginal increases or decreases across the different market segments.

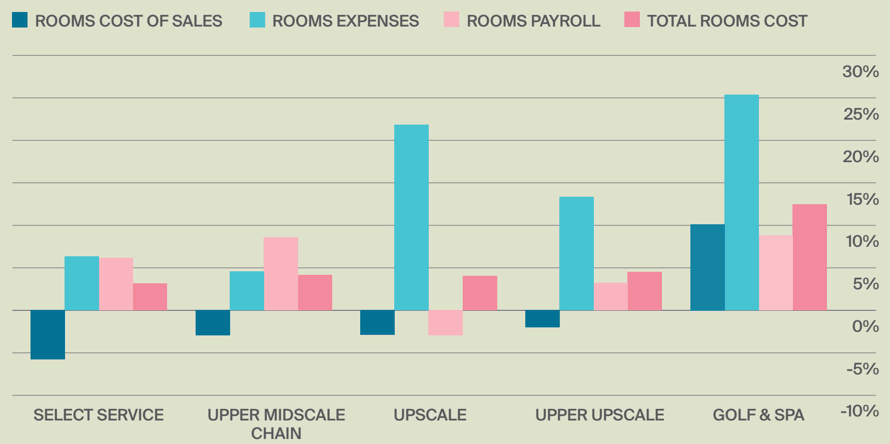
Nevertheless, in 2024, given that certain submarkets have performed particularly strongly in terms of RevPAR, such as golf & spa hotels (+10%), and upper-upscale and upscale hotels (5.5%), the higher conversion of revenues to Rooms departmental profits that would ordinarily be expected, has not materialised, thus demonstrating the impact of rising costs.

London – Rooms departmental costs PAR
% Change, FY 2024 v 2023



Source: HOTSTATS

Regional UK – Rooms departmental costs PAR
% Change, FY 2024 v 2023



Source: HOTSTATS

"Rooms revenue growth has been fundamental in keeping the Rooms profit margin on par with the previous year."

A further indication of the challenges in converting revenues to departmental profit, is the comparison to 2019 profit levels. Whilst the regional UK market is showing less than a one percentage point fall, there is quite a wide variance across the segments. Those markets which have yet to recover in full their pre-pandemic occupancy levels are showing the greatest negative variance.

As such, regional select service and upper-midscale hotels have enjoyed an improved Rooms profit margin compared to 2919, whilst full-service upscale and upper-upscale and golf & spa hotels have all seen lower Rooms profit margins, with leading regional city centre markets coming under the greatest pressure, with their margin now some 2.7 percentage points lower than in 2019.

Rooms Payroll costs increased on average by 5% POR across regional UK in 2024, whilst regional UK city centre hotels recorded an even steeper rise of 6.4% POR, with competitive rates of pay and the elevated cost of employing agency staff a key factor. For those submarkets which were able to increase occupancy, greater efficiencies regarding payroll were evident, whilst for select service and upper midscale hotels where the average length of stay is often shorter and occupancy growth was more restricted, rooms payroll costs per occupied room increased between 6% and 7%. Across all regional UK hotels, Rooms payroll costs averaged 51% of the total rooms cost, compared to 50% in 2023.

The rise in payroll costs is only part of the equation, with a surge in Rooms Expenses the other significant factor at play, driven upwards by the hike in the cost of contracting out linen services, with suppliers passing on their own higher payroll costs to operators. Regional upper upscale hotels have seen general Rooms Expenses increase by almost 9% POR over the past year, whilst this cost has surged by 17% POR for both regional upscale hotels and golf & spa hotels, and by 21% POR for Serviced apartments.

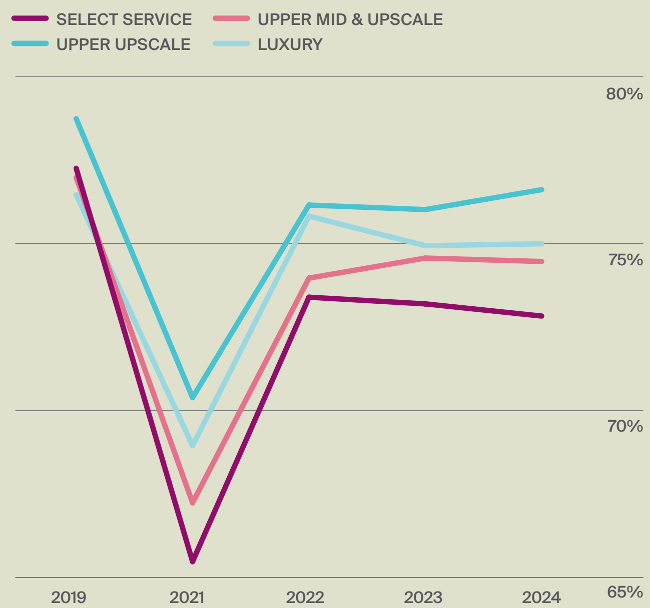
Except for golf and spa hotels, all regional submarkets have seen Rooms Cost of Sales (commissions and reservation fees) decline year-on-year by an average of 3.3% POR, suggesting that as occupancy and the number of occupied rooms has increased, hotels are able to drive an increased share of direct bookings, closing out on the more expensive booking channels.

DRIVING SUSTAINABLE INITIATIVES TO REDUCE COSTS

With sustainability initiatives hot on the agenda, operators are driving consumer initiatives to lower the carbon footprint, and in doing so significantly reduce water usage, energy consumption, and harmful chemicals. With the use of digital platforms, guests have the option to easily opt-out of a daily clean. As such, as the sector enters a period of more normalised levels of revenue growth and heightened cost pressures, the opportunity to streamline operations, reduce housekeeping costs, as well as drive lower expenses for laundry, cleaning supplies, and energy is significant to sustain the current levels of profitability.

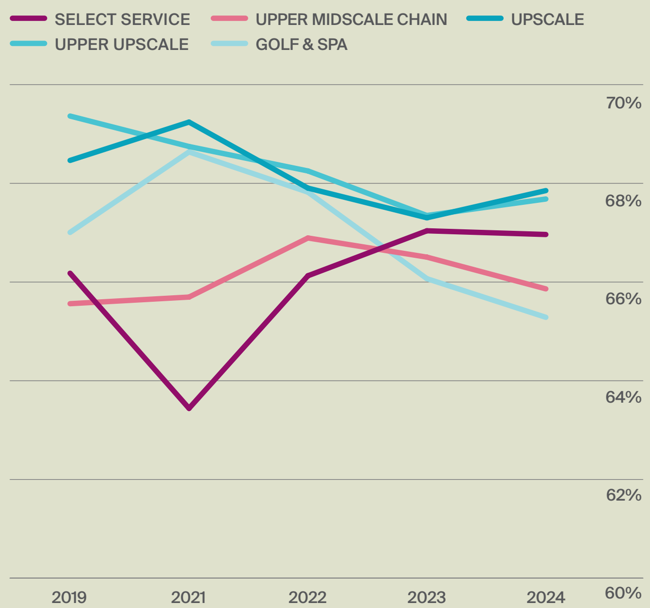
"Despite continued rising costs, for the third consecutive year the profit margin for the Rooms division has remained static at approximately 75% across all London hotels."

London – Rooms departmental profit margin
FY 2019 - 2024



Source: HOTSTATS

Regional UK – Rooms departmental profit margin
FY 2019 - 2024



Source: HOTSTATS

Food & Beverage

With payroll costs set to rise significantly, controlling all non-payroll related F&B expenses will be critical, whilst at the same time optimising opportunities for revenue growth.

Post the pandemic, F&B revenue streams have been recovering at a much slower pace than compared to Rooms Revenue. Despite its challenges, 2024 has provided new momentum with the year-end results showing a more meaningful recovery in the conference and banqueting segment, whilst there is also evidence to suggest that attractive hotel lounges and bars can deliver excellent returns.

With the UK Hotel F&B sector known to be a challenging space, with costs surging in a high inflationary environment, the savviest operators have redefined and changed their service offering to meet the evolving needs of their guests and stand out in a competitive hotel landscape, whilst at times limit the offering to those areas and times of the day most profitable.

Select-service hotels can streamline and have a very lean, sustainable operation, by severely limiting their F&B options. Yet, for other sub-markets the benefits of a hotel's F&B provision is complicated, with F&B not necessarily a main driver of profitability, but which continues to drive footfall to a property and is deemed integral to enhancing a guest's stay.

F&B REVENUES

LONDON

Across the whole of the London market, on average hotels have recorded an annual uplift of 2.8% PAR in their total F&B revenues in 2024, but remain more than five percent below 2019 levels. Total F&B revenues averaged £46.50 PAR, equating to 19% of the total hotel revenue. With a robust increase in room nights occupied, but weaker F&B growth, on a POR basis F&B revenues declined year-on-year by 1.4% across all London hotels.

Key trends in 2024:

- The strongest gains came from F&B generated through Meetings, Conference & Events (MICE) segment, where food spend increased year-on-year by 5.8% PAR and beverage spend by 2.1% PAR.
- London's upper-upscale hotels, particularly those with sizeable conference and banqueting suites, benefitted from a strong uptick in MICE food spend, rising by 9% PAR year-on-year, which was instrumental in driving F&B revenue growth.
- London's luxury hotels recorded respectable growth in food sales, with the uplift originating from the bars, lounges and conference rooms, whilst London's luxury hotel restaurants recorded significantly weaker growth. Beverage sales were notably weaker, however, with falling revenues in both the restaurant and bar profit centres.
- London's upper-midscale and upscale hotels were the biggest winners, with the premium lifestyle segment able to deliver highly desirable, innovative food-led experiences at a more affordable price point. Total annual F&B revenues increased by 5.6% PAR, with particularly strong growth coming from food sales across all its profit centres.

REGIONAL UK

Over the past 12 months regional UK hotels have achieved respectable growth in F&B revenues, averaging £34 PAR, with an annual uplift of 4.4%, but remain some 21% lower in real terms, compared to 2019 prices. A review of F&B revenues on a POR basis also shows weaker growth, averaging 3.2%. As an average across all regional sub-markets, F&B revenues equated to some 27% of the total hotel revenue.

Noticeable trends in 2024 included:

- The robust growth in food revenues from hotels' bars and lounges, with certain markets recording a double-digit increase PAR. Growth in beverage revenues were considerably weaker though, except for conference-led demand.
- Full-service upscale hotels and golf & spa hotels recorded the biggest gains, with total F&B revenues in 2024 up year-on-year by around 9% PAR, with strong growth coming from the MICE segment. Yet, with weaker F&B growth coming from hotel restaurants and bars, despite occupancy levels rising, the spend POR was considerably weaker.

Looking at the year ahead, with potentially lower RevPAR growth forecast, there will be upwards pressure on operators to drive F&B revenues and extend TRevPAR growth.

FOOD & BEVERAGE EXPENSES

LONDON

In 2024, London hotels have seen F&B profit margins improve, with operators working hard to drive improved profitability, supported by enhanced revenue growth and easing cost pressures. As an average across London, the F&B expense margin improved by 2.6 percentage points to average 78.2%. Yet, a full recovery back to the level of profitability achieved in 2019 appears to be no longer in grasp, with a seven-percentage point difference in the profit margin, attributed mostly to the significant rise in the cost of labour.

In 2024, F&B payroll costs accounted for 47% of the total F&B revenue, increasing from 41% in 2019, and accounted for 60% of the total departmental costs, up from 57% in 2019.

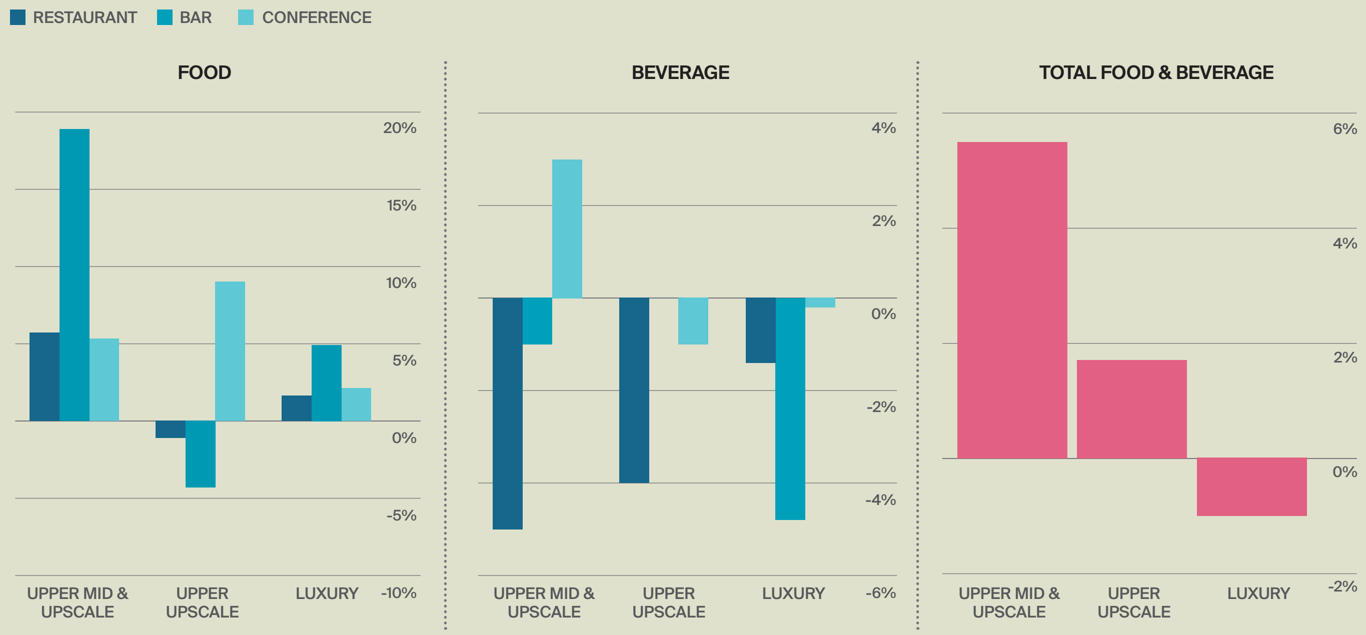
Nevertheless, the enhanced profit conversion for the year came predominantly from the increase in revenues and greater controls in relation to staffing, with total F&B departmental costs on par with the previous year.

Both London's luxury and select service hotels endured a more challenging environment, with both markets recording annual declines in F&B revenues. London's luxury hotels, however, managed to improve their F&B margin through a reduction in total F&B costs, with a 2.2% reduction PAR in payroll costs. By contrast, select service hotels endured F&B payroll costs increasing by 2.4% PAR, but managed to keep the F&B profit margin on par with 2023, with other cost pressures reducing by almost 6% PAR.

REGIONAL UK

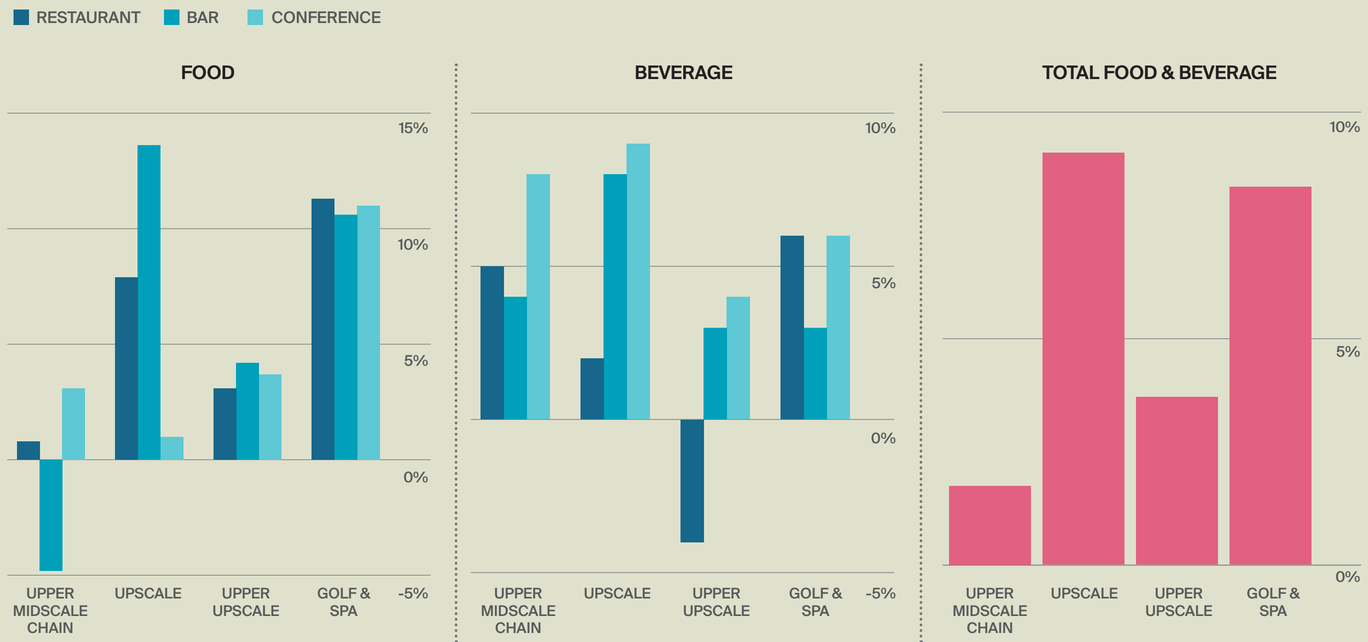
Across regional UK, F&B payroll costs edged upwards on 2023, to 41% of total F&B revenue, equivalent of a 5% increase PAR. Along with increases in the 'cost

Total F&B revenue – London
% Change PAR



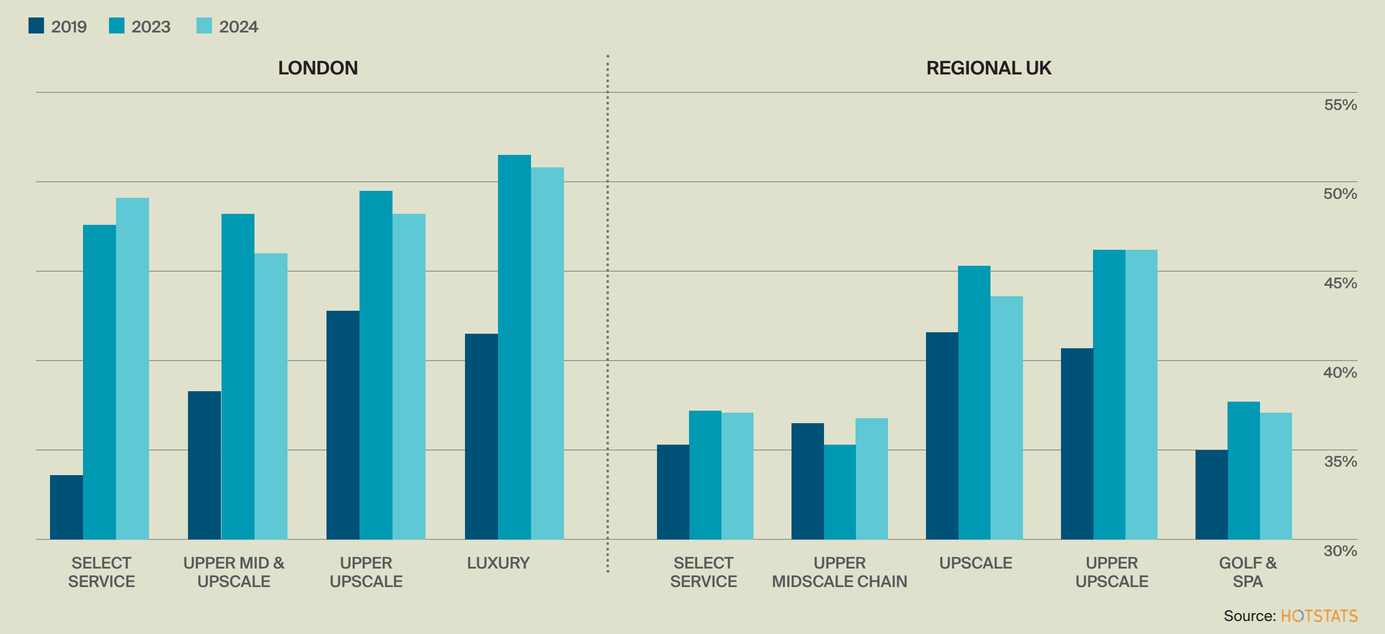
Source: HOTSTATS

Total F&B revenue – Regional UK
% Change PAR



Source: HOTSTATS

F&B payroll costs as a % of F&B revenue

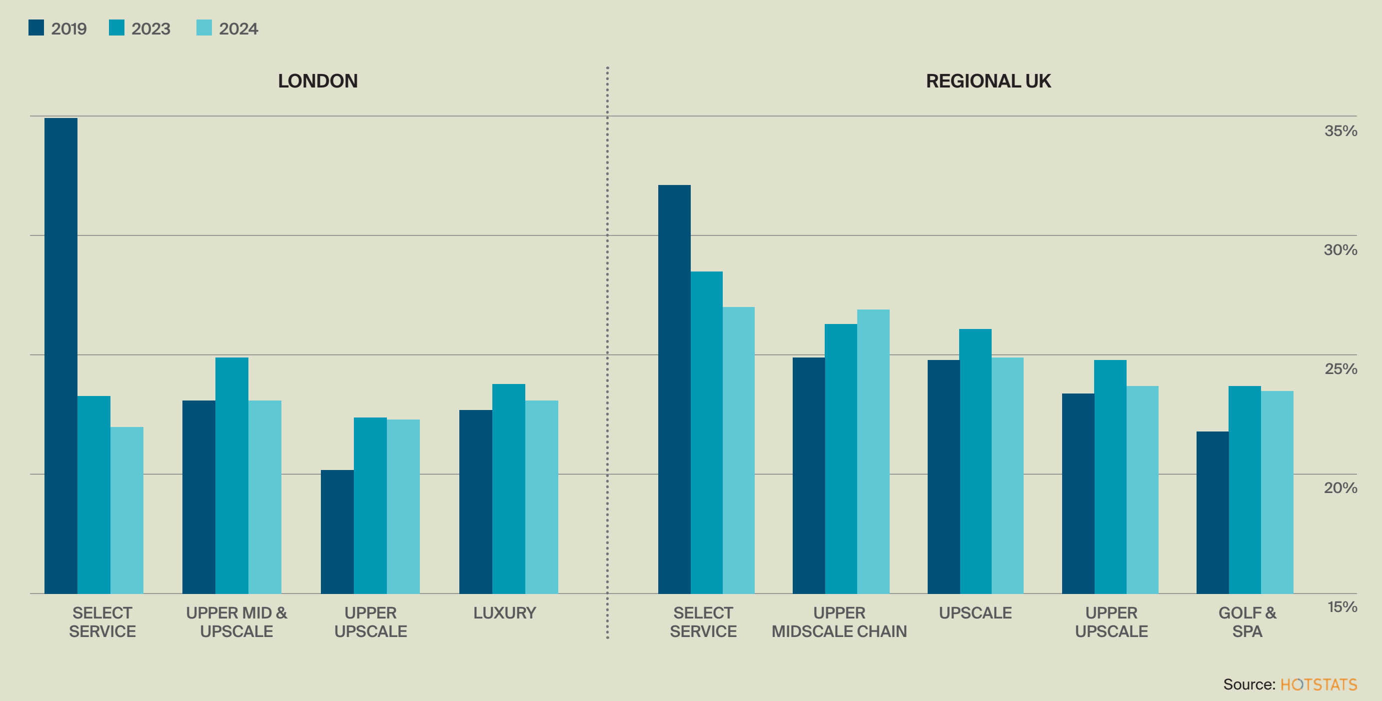


of sales' and 'other F&B expenses', the fact that the departmental profit margin remained unchanged at 27%, was attributed solely to the increase in F&B revenues. Those sub-markets which performed more strongly in terms of F&B revenue growth were able to see improved profit conversion.

Regional upscale hotels recorded a departmental profit margin of 23.7%, achieving a profit conversion some 2.0 percentage points higher than in 2023. Conversely, upper-midscale hotels achieved far weaker revenue growth of 1.7% PAR, which led to a fall in the F&B profit margin by 2.4 percentage points, to 29% of departmental turnover.

Increasingly, hoteliers are using technology and leveraging on the use of data to operate their F&B operations more efficiently, more sustainably, and to identify opportunities of growth upon which to enhance profitability. In 2025, with payroll costs set to rise significantly, controlling all non-payroll related F&B expenses will be critical, whilst at the same time optimising opportunities for revenue growth.

F&B cost of sales as a % of F&B revenue



Ancillary revenues & total revenue mix

Increased tension on operators to continue the momentum to optimise TRevPAR, with above inflationary cost pressures.

LEISURE

Despite London hotels driving just 1% of their total revenue from leisure related revenue streams, revenues increased year-on-year by a healthy 4.9% PAR in 2024, and with costs rising by just 4%, this resulted in departmental profit increasing on average by 6.2% PAR, achieving a departmental profit margin of 39%. With the rise in occupancy, on a POR basis, leisure revenues increased marginally, and the income generated POR remained on par with 2023.

In regional UK, the continued strong demand for leisure experiences and wellness has seen the average spend POR almost doubling since 2019 and the share of leisure revenue (to total revenue) in 2024 to increase by 0.5%, to contribute 5% of total revenue. This resulted in a substantial 14% rise in leisure revenue PAR and departmental profit to rise by 19% PAR. For golf and spa hotels, the contribution of leisure income increased to 9% of total income (8.3% in 2023) and recorded 20% growth in income over the previous year.

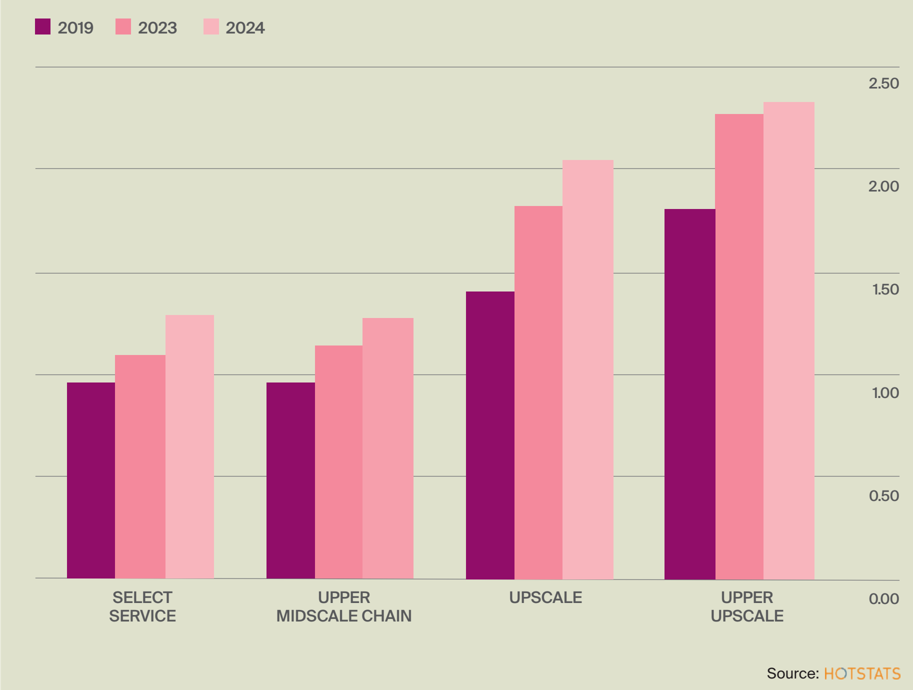
CAR PARKING REVENUE

Across regional UK, car parking revenues are on the rise, with revenue increasing year-on-year by 12% POR and by 37% POR since 2019. This is revenue associated with the service provision of a paid car park, as opposed to income generated through EV charging.

Currently any income generated from EV charging would be included within Minor Operating Departmental revenue, whilst any complimentary use of EV charging would see a rise in complimentary gifts and services under the Rooms expense. Similarly, any expense to the hotel for electricity, would be charged to Utilities.

This, we consider, is an area to watch as more hotels offer this service. With all major OTA websites now having a filter to identify those hotels with EV charging facilities, hotels can potentially attract more guests or equally lose potential custom if they don't have an EV charging facility. Moreover, with hotels offering a Level 2 charger, this allows guests to depart after an overnight stay with a full 100% battery charge. Driving guest loyalty are two critical factors, convenience and peace-of-mind, with the availability of EV charging stations providing passive income to hotels.

Regional UK – car parking revenues POR



> "With all major OTA websites now having a filter to identify EV charging facilities, hotels can potentially attract more guests or equally lose potential custom without offering this service."

HOTEL REVENUE MIX

Overall, in the past 12 months, the allocation of revenues between the various operating departments have remained broadly the same. We outline the following trends for the various submarkets in London and regional UK:

LONDON

- Rooms revenue averaged 78.4% of total revenue across all London hotels, a rise of almost five percentage points when compared to 2019.
- London's upper-upscale hotels have seen their F&B revenue allocation decline by 3.5% since 2019, with the shift in revenues transferring almost exclusively to rooms revenue, with a very minor uplift in the share of leisure revenue.
- London's upper-midscale hotels have seen their F&B revenue allocation decline by 2.5% since 2019, but with these revenues replaced by income generated through concessions, most likely new third-party F&B concepts being introduced. Upper-midscale hotels have also seen the contribution of Rooms Revenue decline by more than 1%, whilst leisure revenue has increased by similar proportions as a percentage of total revenue.
- London's luxury hotels have recorded year-on-year declines in the contribution of F&B revenues. In 2019, F&B revenues accounted for 28.4% of total revenue, compared to 25.1% in 2023 and falling to 24.6% in 2024, which in part reflects the strong growth in ADR.

REGIONAL UK

- Rooms revenue averaged 63% of total revenue across all regional UK hotels in 2024, a rise of 2.8 percentage points when compared to 2019. Meanwhile, F&B revenues share of total revenue declined by 4.7% over the same period.
- Leading city centre hotel markets have seen a half a percentage point fall in the contribution of Rooms revenue mix since 2019, at approximately 67%, whilst the contribution of leisure revenue to the segmentation mix has fallen by one percentage point. By contrast, F&B revenues and other miscellaneous revenues have all increased.
- Regional UK's upper-upscale hotels have seen the contribution of Rooms revenue rise by 4.8 percentage points since 2019, whilst F&B revenues are four-percentage points lower over the same period at 28% of total revenue.
- Golf and spa hotels have seen a significant shift in their revenue mix since 2019, with the substantial 37% uplift in ADR driving upwards the share of Rooms revenue, whilst F&B revenues have seen a four-percentage point drop of their contribution to total revenue to 40%. Over the past 12 months, the revenue mix has been relatively stable, with Rooms revenue equating to 38%.

Maldron Hotel Manchester, Cathedral Quarter

NOMINAL V REAL REVENUE GROWTH

The ability to increase room rates was key in helping the UK hotel sector combat soaring inflation at its peak, yet with inflation now returning to more normalised levels, those submarkets which are yet to return to 2019 levels of occupancy are currently seeing the greatest decline in 'real' revenue after adjusting for inflation. The exception to this rule, is where markets have recorded exceptionally strong ADR growth to allow RevPAR to return to 2019 levels in real terms.

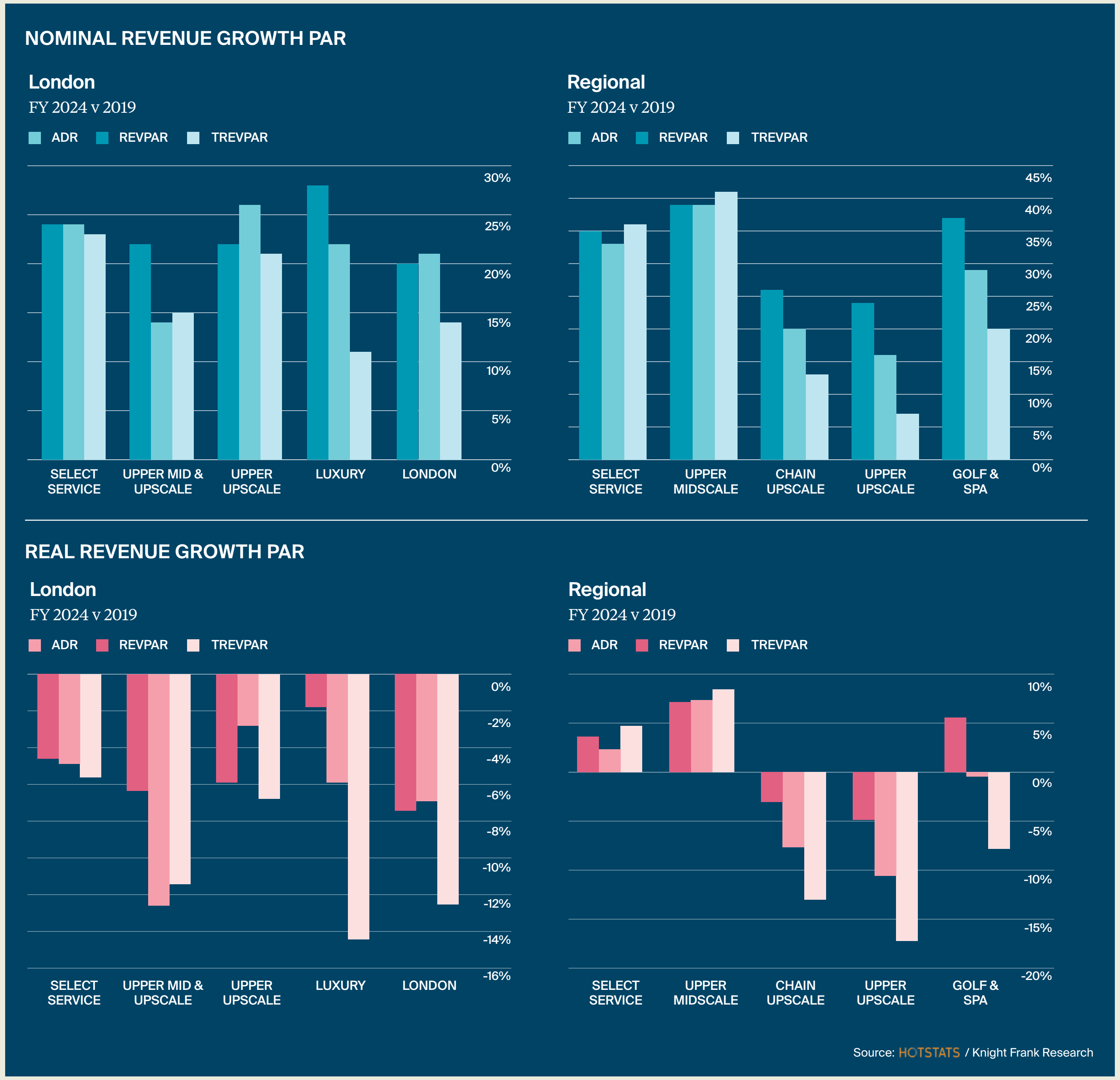
Further impeding on performance has been the low growth of F&B revenues in recent years, with the MICE market the slowest to recover. In 2024, this was the first year since the pandemic that regional UK recorded stronger growth in TRevPAR than compared to RevPAR growth, which has be driven by the recovery in the MICE segment.

Our analysis identifies the following key trends:

- Regional UK select service and upper midscale chain hotels haven proven to show the greatest hedge against inflation, with 2024 TrevPAR exceeding 2019 levels. The key to this achievement has been through extraordinary ADR growth, with regional upper midscale hotels leveraging their rate by 39% and for select service hotels approximately 35%.
- As a sub-market, select service hotels are proving the most resilient, with London's select service hotels achieving the strongest TRevPAR in real terms across all London sub-markets.
- Regional select service hotels is the only sub-market to have built back both Rooms and F&B revenue to beyond 2019 levels. Benefiting

from a lean food offering, but also having a captive audience at breakfast, has allowed prices to keep pace with inflation, further supporting TRevPAR.

- Both golf & spa hotels and London's luxury hotels have seen strong ADR growth, but real RevPAR performance has been impeded by occupancy levels well below stabilised levels. Full-year 2024 occupancy of London's luxury hotels was 3.3 percentage points lower than in 2019, with a wider gap for golf & spa hotels, with occupancy down by 4.7 percentage points.
- London's luxury hotels have seen F&B revenues decline in real terms by 26%, which combined with declining RevPAR in real terms, has seen TRevPAR fall by 14% in real terms versus 2019.
- London's full-service upper-upscale hotels have seen F&B revenues decline at a similar level to the luxury segment, but the key difference has been its ability to drive RevPAR, which is just 2.8% below 2019 levels.
- Regional upscale hotels have endured the most challenging of times, with the gradual return of the corporate and MICE market impeding this sector's ability for growth, both in terms of Rooms and F&B revenues.
- The price parity between the regional upscale sector and the upper-upscale sector has narrowed since 2019, with the ADR of the upper-upscale segment just 13.7% higher, with the variance narrowing to less than 10% in terms of TRevPAR.



Departmental operating income

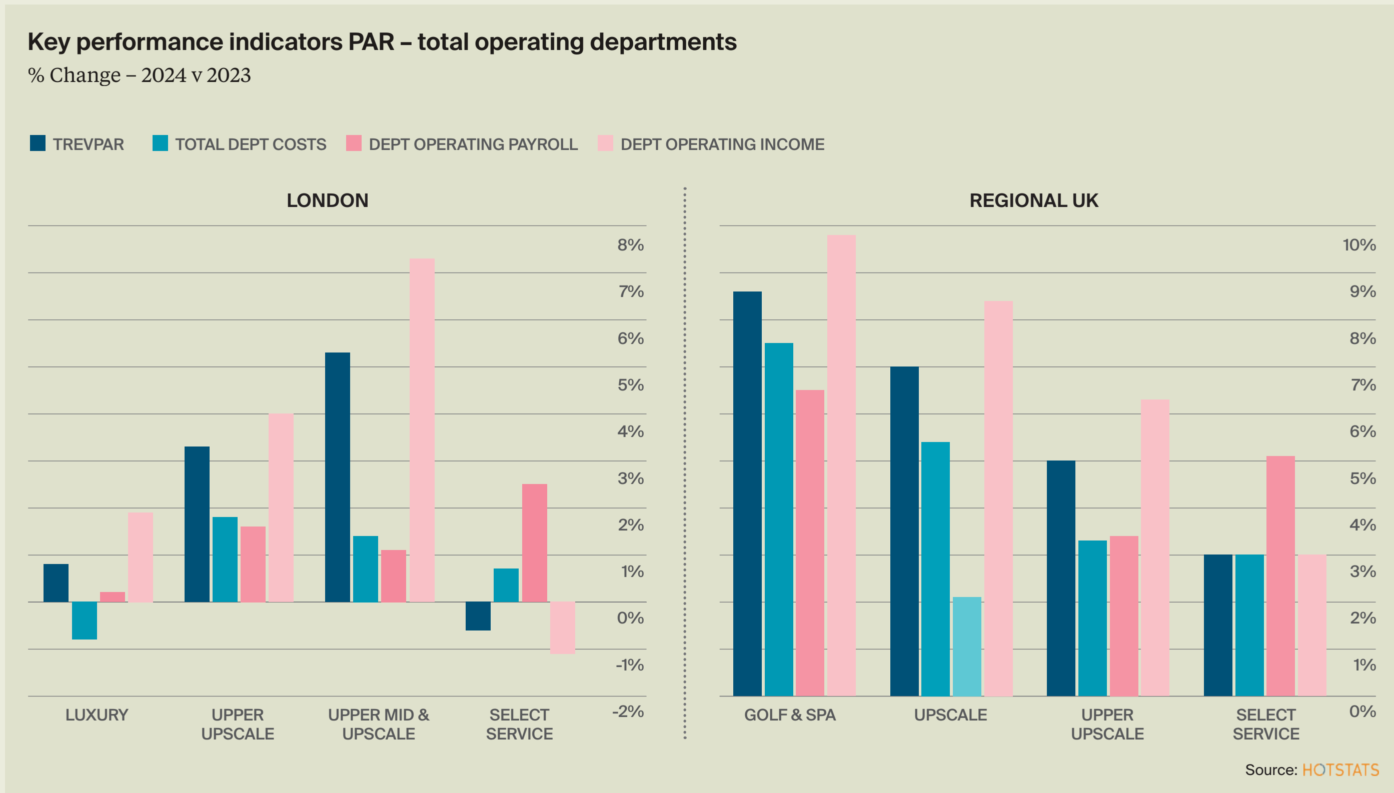
The London hotel market delivered its strongest departmental operating margin since the pandemic, to achieve 64.8% in 2024. With London generating 90% of its total profit from the Rooms department, the importance of achieving respectable RevPAR growth cannot be overstated.

Except for select service hotels, which was the only sub-market not to achieve growth in TRevPAR, all London datasets recorded growth in their total departmental operating income (DOI). London as a whole achieved a DOI of £156.50 PAR, rising by 4.5%, which represents an uplift of almost 12% when compared to 2019. London's upper-upscale hotels outperformed the market, converting its robust revenue performance, to achieve more than 7% growth PAR in its departmental operating profit.

The resilience of the regional UK market is clear from its dogged approach to maintaining its departmental operating margin, which was held for a fourth consecutive year at 55.7%, despite the pressure on costs. The DOI for regional UK reached a new height of £70 PAR, rising year-on-year by 4.4%, and a staggering 21% ahead of 2019 departmental profit levels.

- Golf and spa hotels outperformed the regional market, with a 10% uplift in its DOI, to reach £129.60 PAR.
- Full-service upscale and upper-upscale hotels have experienced a far slower recovery compared to other submarkets, but DOI is now ahead of their 2019 performance, by almost 13% and 7 % respectively.

"Despite rising cost pressures, the regional UK hotel market maintained it departmental operating margin for the fourth consecutive year at 55.7% and with departmental income of £70 PAR now 21% ahead of 2019 levels."



Undistributed operating expenses

Excluding utilities costs, undistributed operating expenses continued to rise in 2024, albeit at a slower pace than compared to the preceding 12 months but increasing their share as a percentage of total revenue, equating to 18% of total revenue in London and 19.5% in regional UK. General expenses accounted for 63% of the total expense, rising by 6% year-on-year, whilst payroll costs increased more steeply, increasing by 7% in London and 11% in regional UK.

ADMINISTRATION & GENERAL

Total Administration & General (A&G) costs increased by 4.8% PAR in London to average £17.50 PAR, accounting for 7.3% of total revenue. Payroll costs, which accounted for 48% of total A&G expense, increased by 4.4% PAR, but with upscale and upper-upscale hotels recording significantly higher wage growth of between 6% and 7%.

Across regional UK, A&G costs increased by 3.2% PAR to average £9.30 PAR, accounting for 7.4% of total revenue. Payroll costs accounted for 50% of total A&G expense, having increased by 3.4% PAR, but with upscale and golf & spa hotels recording significantly higher wage growth of close to 8%.

In London, the rise in A&G expenses outstripped the rise in payroll costs, rising by more than 5%. Credit card commission costs were a significant contributor, with these costs representing 48% of the total A&G expense (excluding payroll costs), increasing by 5.5% PAR year-on-year. Since 2019, Credit Card commission costs have increased by 16% PAR across all London hotels, but with select service and upper-midscale hotels seeing this expense rise by as much as 30% PAR, with the expense correlated to revenue growth.

Across regional UK, a similar strong rise in Credit Card Commission fees has occurred, averaging 8% PAR over the past 12-months and by 34% when compared to 2019. The reason for such hikes, according to the Payment System Regulator, is due to a lack of regulatory constraints, particularly in the post Brexit era where previously regulated EU caps on outbound cross border fees (fees paid by UK businesses on non-UK issued payment cards) no longer apply.

IT INVESTMENT

With technology seen as the key to unlocking greater efficiencies and the journey towards enhanced revenue optimisation, developing a hotel's ecosystem in technology requires investment. Whilst an allocation for capex (as a percentage of total revenue) is regularly made towards the fabric and M&E of the property, it is increasingly likely that as technology advancements continue to accelerate, more hotel owners will seek to include a reserve for investment in their IT infrastructure.

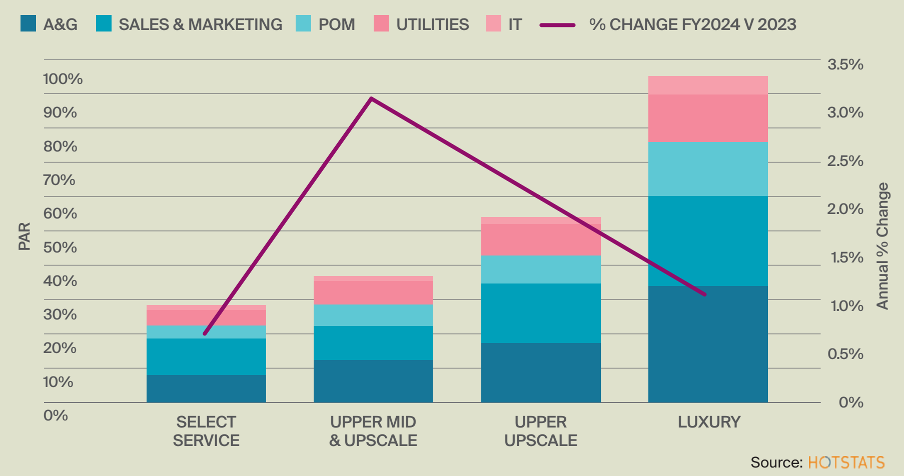
Current IT spending is a relatively minor cost centre for hotels, with IT expenses averaging just 1% of total revenue in London and 1.5% across all regional hotels, with these costs having been relatively controlled compared to other expense lines within the Undistributed Departments.

London hotels recorded IT costs increasing in 2024 by just 2.8% PAR, whilst regional UK recorded an increase of 8% PAR. The highest levels of IT investment (with expenses rising by 13% PAR) came from golf & spa Hotels, with potentially larger and more complex systems requirements, and from regional upper-midscale hotels, likely to be playing catchup, with investment still at a relatively low level.

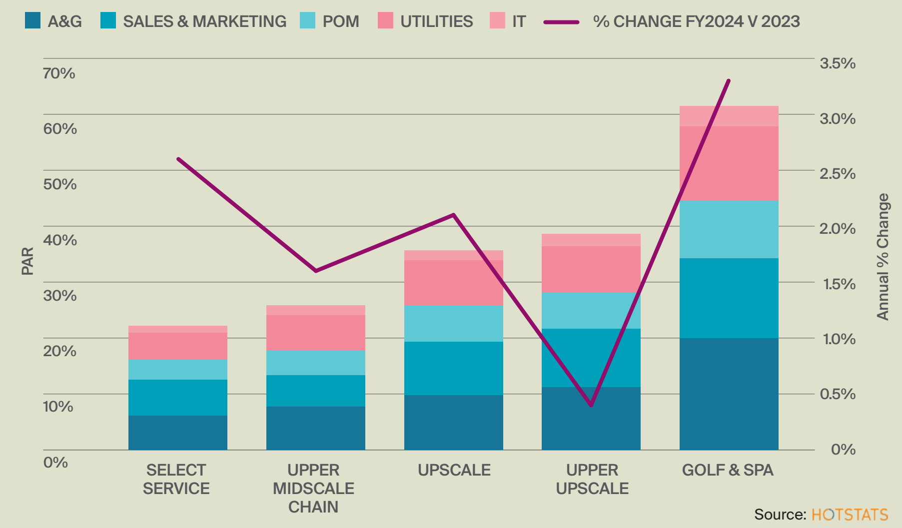
Digital innovations are far reaching, with unprecedented development in technology to include mobile check-in, digital marketing and branding, AI-driven Chatbot support, data-driven tools to personalise the guest experiences, and sustainability measures to redefine and improve guest satisfaction and loyalty. Meanwhile, investment in Search Engine Optimisation, Search Engine Marketing, web development, and AI-driven automation systems are all critical areas for investment if hotels are to be agile, innovative, and committed to harnessing the potential of technology.


The Resident, Edinburgh

London – Undistributed operating expenses PAR
FY 2024 and % change v 2023



Regional UK – Undistributed operating expenses PAR
FY 2024 and % change v 2023



SALES & MARKETING

With the importance placed on maximising revenue streams and improving on a hotel's competitive positioning, increasingly it is the calibre of personnel within a hotel's sales force, revenue management and digital marketing team that are deemed as critical to be able to effectively and collaboratively exploit, manage and leverage the advantages of a sophisticated IT system.

Sales & Marketing (S&M) payroll costs increased year-on-year in 2024 by 8.4% PAR in London and by 11.5% PAR in regional UK, with payroll costs outpacing the rise in S&M expense costs. At £15.50 PAR in London and £7.90 PAR in regional UK, total S&M costs equated to 6.4% and 6.3% of total revenues respectively. S&M Payroll costs equated to 26% of the total S&M expense in London, rising to 32% in regional UK, with investment in people now ahead of the 2019 payroll by 10% PAR in London and 18% PAR in regional UK.

Meanwhile franchise and affiliation fees are accountable for a substantial increase in non-payroll S&M costs, which increased in 2024 by 5.8% PAR in London, and by 5.3% in regional UK. Franchise fees accounted for 35% of the total S&M costs in both London and regional UK in 2024. With respect to brand loyalty programme fees which in recent years have seen significant growth, this was not the case in 2024, where costs stayed on par with the previous year or declined.

PROPERTY OPERATIONS & MAINTENANCE

Property, Operations & Maintenance (POM) expenses have increased over the 12-month period by 8% in London and by 9% in regional UK, to average £8.50 and £5.40 PAR respectively. In London, the pace that costs increased was lower than in 2023, by contrast regional UK has seen a steep injection in the pace of costs increasing, up from 4.7% in 2023.

POM payroll was a significant contributing factor to the increased costs, with payroll costs rising by 11% in London and 10% in regional UK. The cost of labour accounted for 40% of the total POM costs in London and 33% in regional UK. POM payroll costs in London's select service hotels now account for 40% of the total expense, a five-percentage point increase compared to 2019. Regional UK's upscale hotels and serviced apartments have also seen a similar hike in wage costs as a percentage of total POM costs.

POM expenses (non-payroll related expenses) have also increased, by 6% PAR in London and by almost 9% PAR in regional UK, this is a particularly steep rise in regional UK where the previous year, POM expenses had remained static. With guest expectations increasing, particularly considering the increased room rates, certain operators are likely to have undertaken more repairs and maintenance, as a defensive play to keep guest satisfaction scores from declining and delaying performance improvement plans. Now that interest rates are on a downward trajectory, debt-funded capex projects are expected to rise in 2025.

Total costs relating to POM accounted for 3.5% of total revenue in London (3.4% in 2023) and 4.3% in regional UK (4.1% in 2023).

UTILITIES

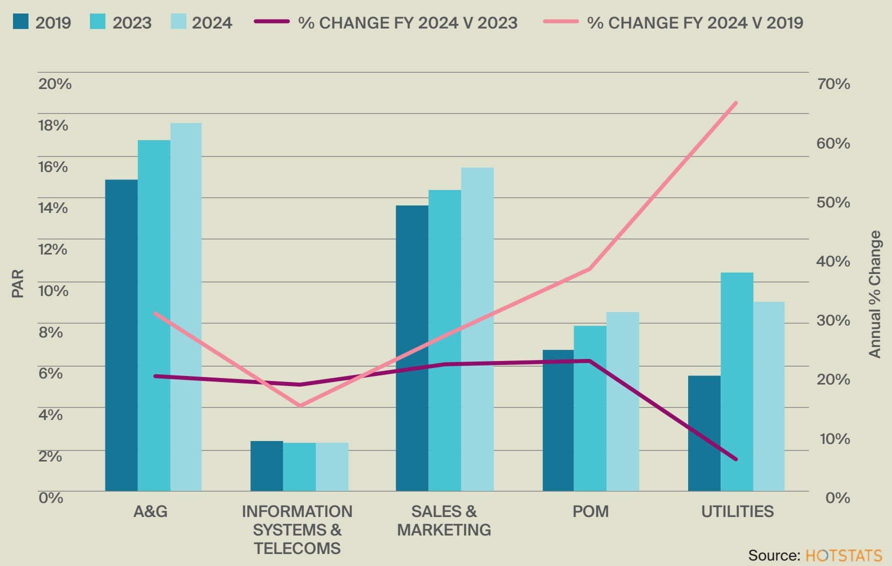
With wholesale gas prices starting a meaningful and lasting downward trajectory from January 2024 and despite hotel occupancy levels continuing to recover, the cost of utilities PAR fell between 13% and 16% year-on-year, across the various London submarkets, to average £9.05 PAR. Across regional UK, utility costs declined on average by 13% PAR over the same period, averaging £7.35 PAR. How much these savings were generated through improved energy pricing versus efficiency projects is difficult to say, but the combined effect has helped sustain profitability levels and margins.

In 2024, lower utility costs, supported cost pressures elsewhere in the business. On a PAR basis, as an average across all London hotels, efficiencies made from lower utility costs represented 39% of the total excess costs, whilst for regional UK, utility savings covered 27% of the additional costs. In certain sub-markets where operational costs have been contained, savings made in utilities contributed significantly more than the average shown.

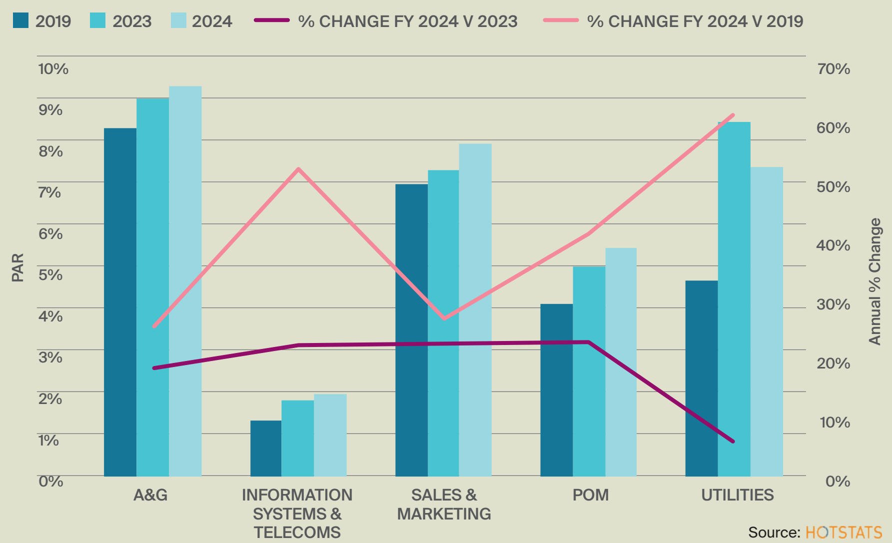
Nevertheless, utility costs remain significantly higher than compared to 2019, some 63% higher PAR in London and averaging 58% higher PAR across regional UK. For the 12-months of 2024, utility costs represented 3.8% of total revenue (compared to 2.6% in 2019), and for regional UK utility costs averaged 5.9% of total revenue (versus 4.5% in 2019).

With evolving energy markets and changing regulations, operators should not assume that energy prices will automatically continue to decline. With the domestic energy price cap in the UK projected to rise in April 2025 by up to 3%, this provides an indication of the overall energy market outlook. In an industry renowned for its high utility consumption, implementing energy-efficient upgrades like LED lighting, optimised HVAC systems, low-flow fixtures, smart energy management systems are all critical to driving efficiencies to optimise cashflows and sustain profits.

London – Undistributed operating expenses PAR



Regional UK – Undistributed operating expenses PAR



Hotel payroll costs

With the National Living Wage (NLW) seeing real growth in 2024, above inflationary wage growth is occurring at all levels of a hotel, as employers seek to maintain the pay gap between different levels of seniority.

Across London and regional UK, payroll costs have increased on average by 20% PAR since 2019, but with the select service and upper-midscale hotel segments recording far sharper increases in payroll costs, much more aligned to the 39% rise in the NLW over the same period.

Over the past 12 months, hotel labour costs increased more steeply across regional UK than in London, rising by 6.1%, which was higher than the 5.6% growth in earnings recorded by the ONS for the three months ending November 2024.

LONDON

In 2024, year-on-year, total payroll costs for the London hotel market increased by just 2.7% PAR, despite the 10% annual increase in the NLW, but with undistributed payroll costs increasing at a faster pace than departmental operating payroll costs.

With new hotel technology providing access to workforce management platforms, the ability to optimise staff scheduling based on actual forecasted hotel occupancy and demand is helping to improve operational efficiency. With London's annual occupancy increasing by 3.4 percentage points in 2024, efficiencies in staffing were made, be it through improvements in productivity and/or processes, leading to departmental payroll costs on a POR basis to fall by 2.8%.

By contrast, undistributed payroll costs increased by 6.8% PAR year-on-year, as employers were forced to adjust salaries across all pay grades to preserve the existing pay differentials as the new NLW rate was enforced. The biggest increase to total payroll costs (in terms of quantum) came from A&G, rising by 4.4% PAR, but with Sales & Marketing payroll costs increasing at a faster rate with an annual rise of 8.4% PAR and Property, Operations and Maintenance (POM) payroll rising by 11% PAR.

London's payroll costs equated to 25.7% of total revenue, with the margin remaining on par with 2023, but higher than compared to 2019.

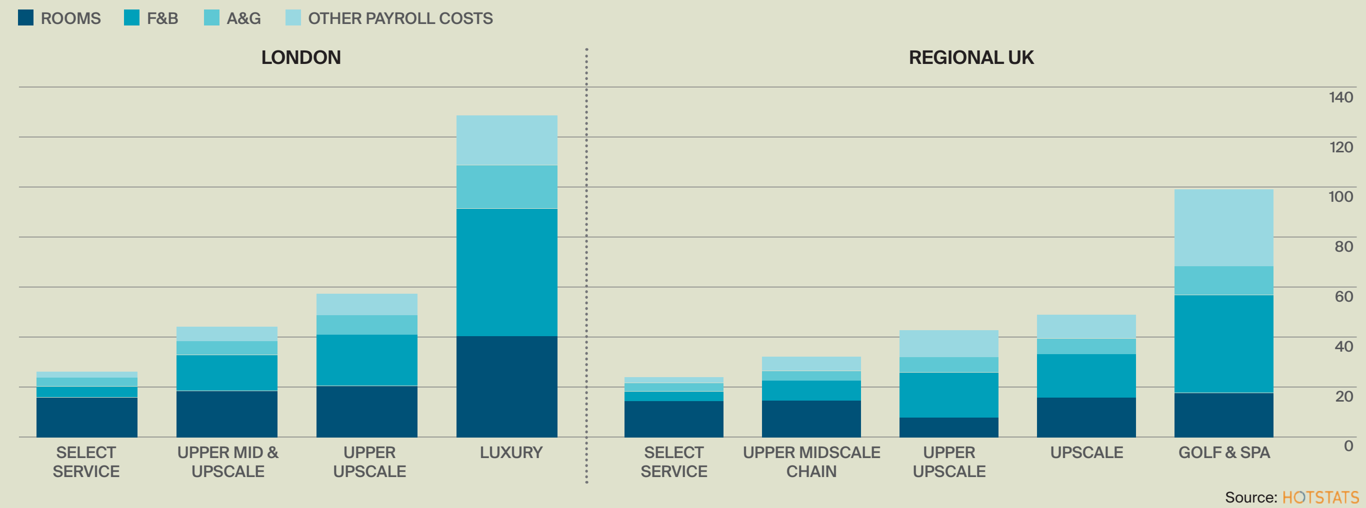
- Payroll costs make up 20.7% of the total revenue for select service hotels, more than four percentage points higher than in 2019, whilst for
- London's luxury hotels, the labour cost reflects 31.7% of the turnover (28.8% in 2019).

REGIONAL UK

Based upon the rise in payroll costs in 2024, there is evidence to suggest that regional hotels are weathering the NLW storm less well than compared to London, with potentially less flexibility and availability of staffing. Payroll costs for the year increased across the whole of regional UK by 6.1% PAR, with departmental operational payroll, which represents 77% of the total payroll bill, increasing by 5.9% PAR.

Breakdown of payroll costs PAR

Full Year 2024



Undistributed payroll costs across regional UK increased at a faster pace than operational payroll costs, rising by 6.8%, with payroll costs of the S&M and POM, increasing by 11.5% and 10% PAR respectively.

Payroll costs across regional UK averaged 30.9% of total revenue in 2024, up by almost half a percentage point year-on-year, representing 44.4% of total costs.

PAYROLL HEADWINDS AHEAD

Very severe payroll challenges are soon to hit the sector, which if not managed are very likely to impact on a hotel's profitability in the short-term. From April, employers will have to contend with the annual rise to the NLW (set to increase by 6.7%) and with it, the age threshold being lowered again to include all workers aged 21 and over. At the same time, the increase in taxes relating to the employer's National Insurance contribution will take effect, with the hotel sector to be significantly impacted by the unexpected lowering of the threshold for which this tax becomes payable. This forthcoming storm of continued heightened payroll costs is already having a profound impact on how hotel owners are preparing for the year ahead.

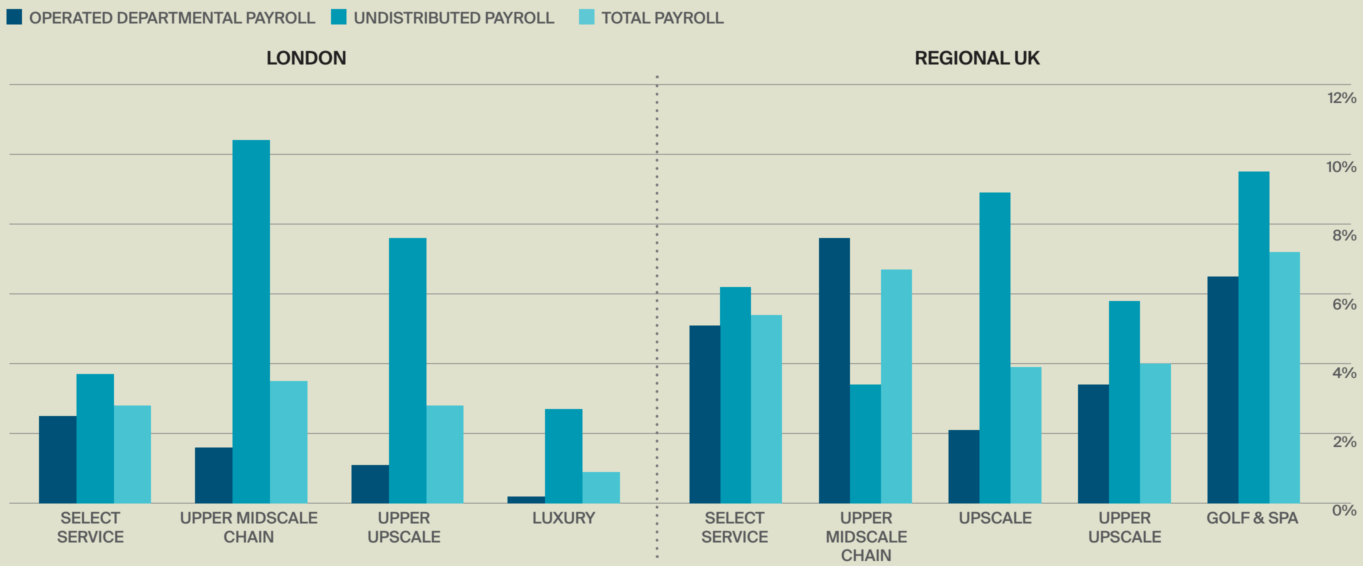
Hotels face constant pressure to boost efficiency, cut operational costs, and exceed guest expectations. Optimising resources will become more crucial than ever, and we are already seeing certain operators make difficult decisions by reducing headcounts as the path to profitability.

With the surge in the NLW in recent years, zero-hours contracts have increased significantly, as employers seek flexible and more cost-effective ways to manage staffing levels. Yet, adding further to the woes of the sector is The Employment Rights Bill which was introduced to Parliament in October 2024 and is expected to take effect in 2026. This will most likely create new obligations for employers, making it much more difficult to employ staff on zero-hours contracts. Whilst it is unlikely to lead to a total ban, an employee is likely to have the choice of either the flexibility of a zero-hours contract or greater security through an alternative contract, with guaranteed set hours or a guaranteed minimum number of hours.

art'otel London Hoxton

Breakdown of payroll costs PAR

% Change 2024 v 2023



Source: HOTSTATS

Gross operating profit

The GOPPAR winners were those hotels which penetrated strongly in the meetings, conference and events segment, with full-service hotels attaining much higher revenue and GOPPAR growth than compared to the select service or midscale sectors.

Following an exceptionally strong year of growth in 2023 when profits not only recovered but exceeded 2019 levels, reaching above this level of profitability in a landscape of significantly lower revenue growth, was always going to be difficult. Yet, the resilience of the UK hotel market delivered another strong and profitable year of trading, which was achieved through tight control of expenses, at a time when occupancy levels and payroll costs were increasing.

It was also the first year during the six-year period under review that regional UK achieved stronger GOPPAR growth than compared to London.

The London market recorded GOPPAR growth of 5.6% in 2024, to reach £103.50, ahead of its 2019 performance by 7%. At the same time, London improved its annual profit conversion by almost one percentage point to reach 42.9%, but this measure shows the taxing environment that operators are facing, with the GOP margin almost three percentage points lower than compared to 2019.

Across regional UK, it was a year of mixed fortunes and whilst the market achieved GOPPAR growth of more than 7% to reach £38, there was a strong variation in performance between the different datasets.

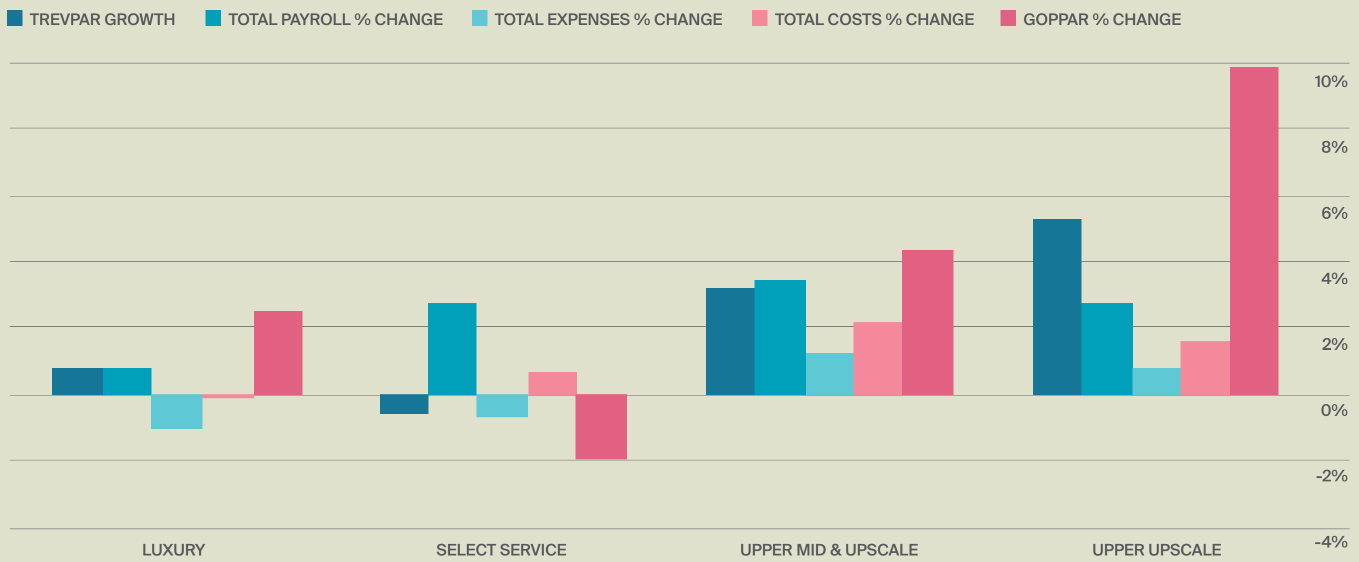
With 2025 set to become increasingly more challenged with respect to the forthcoming hikes to payroll costs, the past 12-months provides a clear indication of how changes in payroll costs can impact on profitability.

- London's select service hotels, which was the only sub-market not to record an uplift in GOPPAR in 2024, endured a particularly arduous time with a decline in TRevPAR, and with an increase in operating expenses solely attributed to the rise in payroll costs. This resulted in their profit margin falling below 48% and is now a full 6.5 percentage points lower than the profit conversion in 2019.

"TRevPAR growth is the only way to truly withstand a challenging cost environment, with regional upscale hotels and golf and spa hotels each recording high single-digit growth in revenue, and despite modest increases to payroll and other expenses, delivered respectable GOPPAR growth."

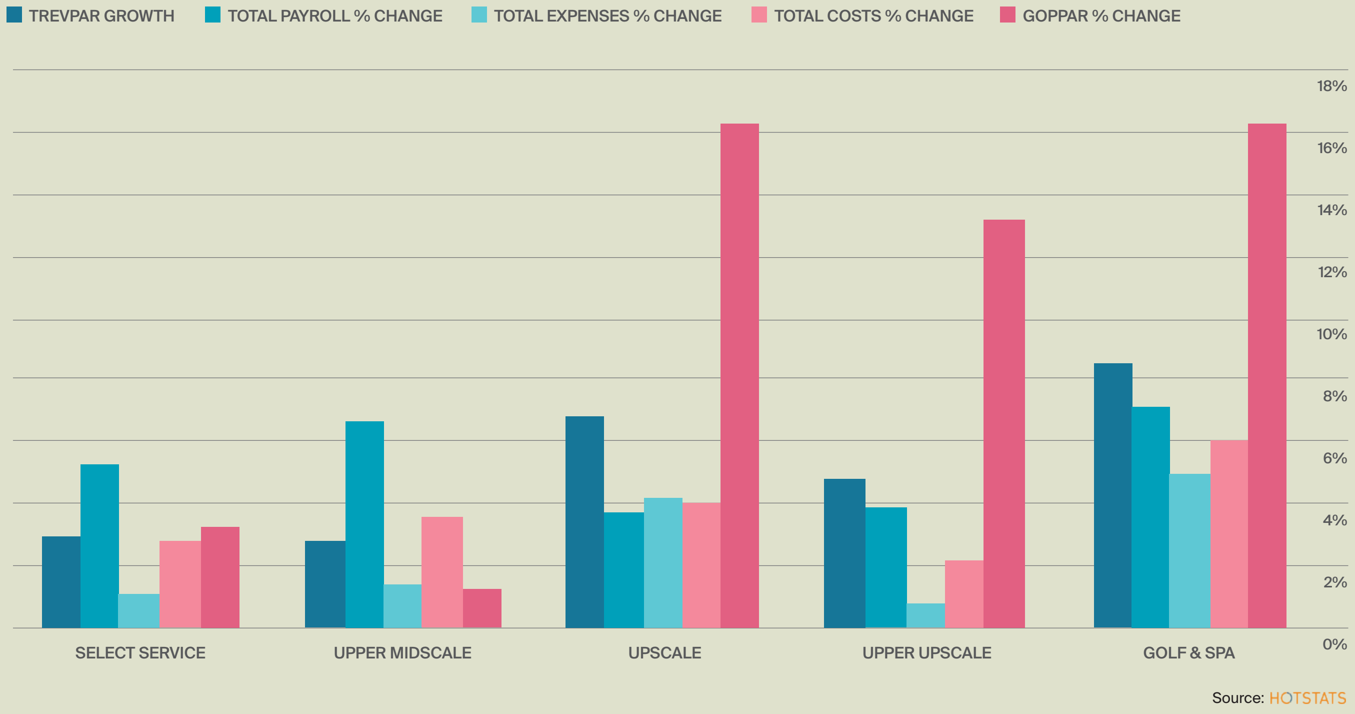
London – Impact of change in costs on profitability

% Change 2024 v 2023



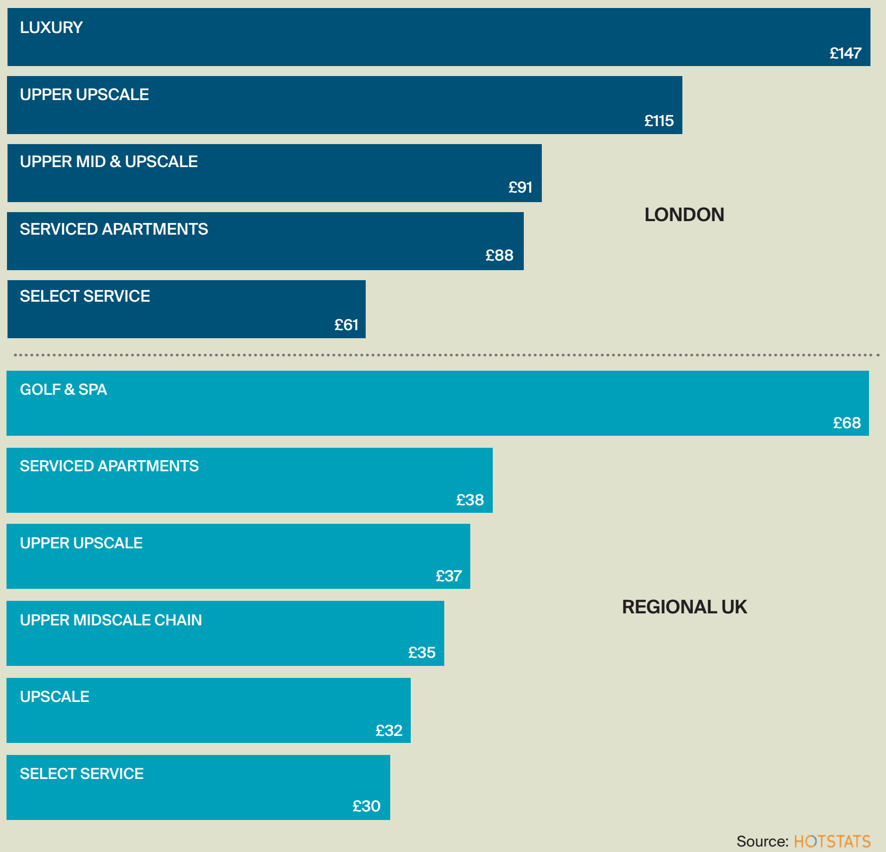
Source: HOTSTATS

Regional UK – Impact of change in costs on profitability
% Change 2024 v 2023



- The performance of London's upper-mid & upscale hotels showed how a respectable increase in TRevPAR of 3.3%, served to support the rising payroll costs and was still able to deliver respectable GOPPAR growth of 4.4%.
- Regional UK's upper-midscale hotels recorded a respectable RevPAR buffer of 2.8% growth, but with total payroll rising by 6.7%, along with a small rise in other expenses, this led to only marginal GOPPAR growth of 1.3%.
- Upper-upscale hotels, (both London and regional UK) achieved TRevPAR growth of around 5%, whilst incurring only modest rises in 'non-payroll expenses', were able to withstand relatively high levels of payroll increases whilst achieving respectable GOPPAR growth.
- TRevPAR growth is the only way to truly withstand a challenging cost environment, with regional upscale hotels and golf & spa hotels each recording high single-digit growth in revenue, and despite modest increases to payroll and other expenses, they delivered impressive GOPPAR growth of 16%.

Gross operating profit PAR (£)
FY 2024



UK serviced apartments

Year-on-year, post the pandemic, the UK serviced apartment sector has outperformed the wider hotel market in terms of occupancy, but the past 12 months has been a challenging year for the sector.

In 2024, London's serviced apartments achieved an increase of 3.4 percentage points to achieve a highly respectable occupancy of 86.5%, but like the wider London hotel market, its ADR declined by one percentage point. By contrast, serviced apartments in regional UK suffered a 2.4 percentage point decline in occupancy to reach 80.8%, but gained in its ADR with growth of 3.9%. With serviced apartments across the UK achieving just 1% growth in RevPAR, the sector significantly underperformed the wider hotel market in terms of growth. With the Asian inbound market slow to recover, this has impacted upon the performance. Unable to leverage their ADR, instead overnight stays have been replaced with shorter stays and lower yielding markets, which in turn has increased the operational cost of servicing the apartments.

Driving apartment revenue growth is fundamental for the sector, due to its high dependence of this one stream of income. Yet, the lean operating structure has continued to drive profit levels significantly higher than the wider hotel market, with London serviced apartments achieving a total departmental operating margin of 79% and for regional UK an average of 72% was achieved.

Cost pressures, however, were apparent, with the cost of payroll increasing year-on-year on a POR for regional properties, due to their lower achieved occupancy level. Whilst the London market was able to manage its operational payroll effectively, a hike in Rooms expenses, particularly linen costs, dampened operating income. Lower costs were though achieved, through reduced cost of guest acquisition, with potentially a greater number of direct bookings.

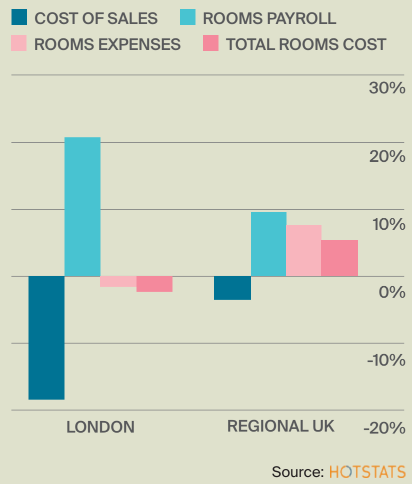
Serviced apartments further experienced a strong increase in undistributed expenses, with payroll a contributing factor, but with more significant cost increases to general expenses. Lower utility costs, however, mitigated against most of the increased expenses, particularly for regional UK.

For London's serviced apartments, the marginal growth in revenue was not sufficient to cover the increased costs, resulting in a 0.5% decline in GOPPAR, and a one percentage point decline in the GOP margin to just under 57%. At this level, the GOP margin remains significantly above the wider London hotel market of 43%.

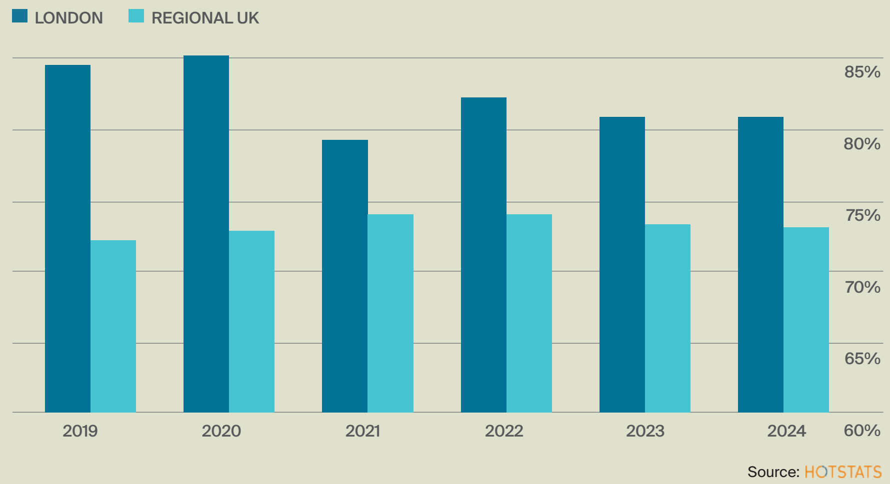
Meanwhile, despite only limited GOPPAR growth of 1%, regional serviced apartments managed to keep their profit margin level with the previous year. At 41.6% profit conversion, this compares most favourably with the GOPPAR achieved by the regional UK hotel market of 30%.

Looking ahead to 2025, whilst significant cost pressures will continue to impact performance, potential for improved revenue growth is possible, with the increase in long-haul travel expected, and with a notable surge in interest of US students seeking to study abroad following the US election.

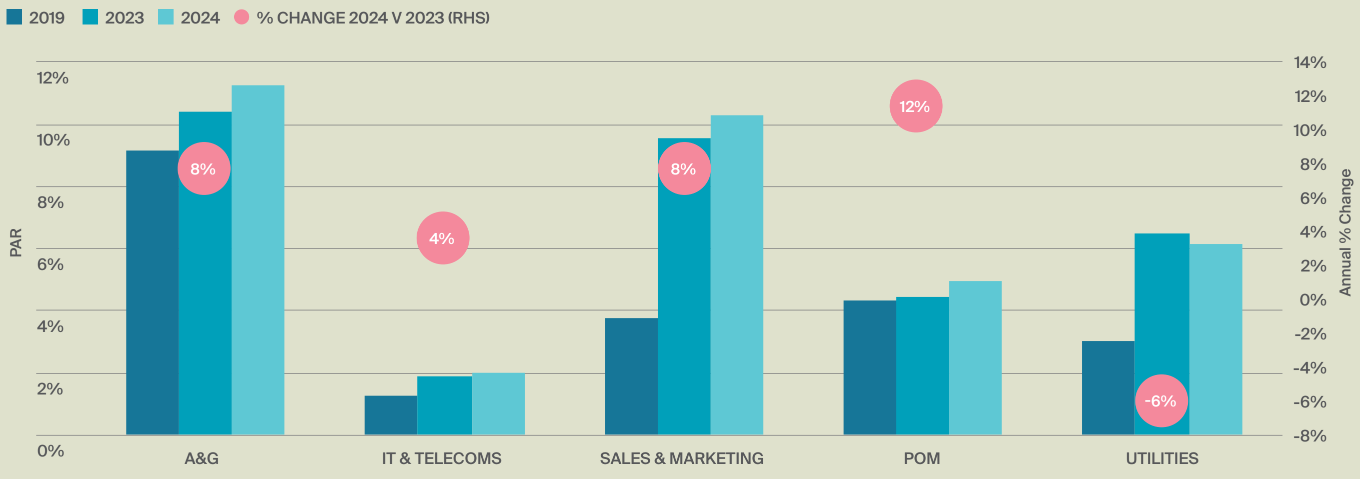
Serviced apartment costs POR
% Change, FY 2024 v 2023



Total departmental profit margin
FY 2019-2024

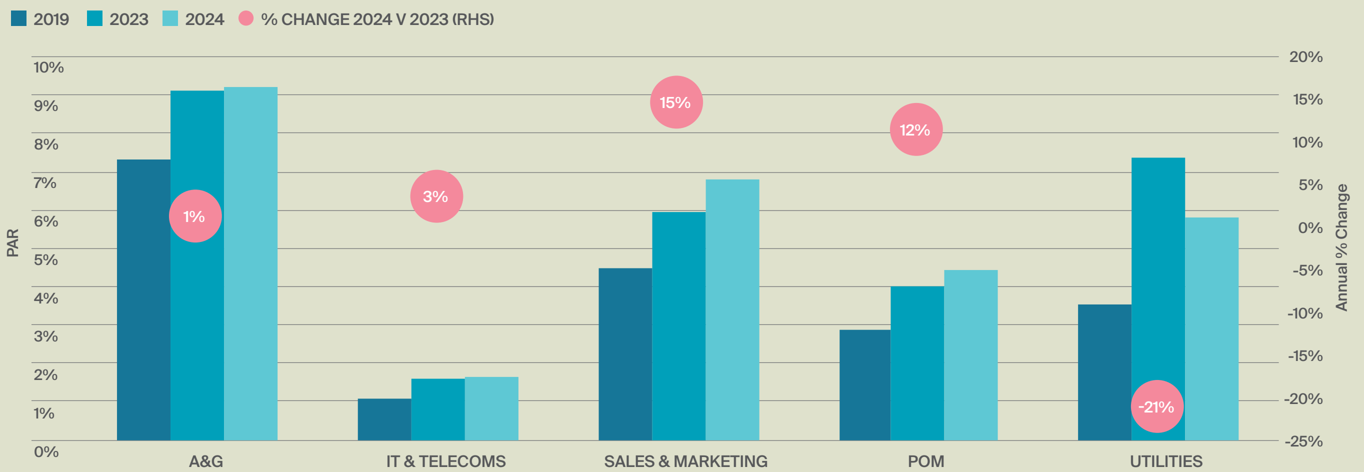


Serviced apartments, London – undistributed operating expenses PAR



Source: HOTSTATS

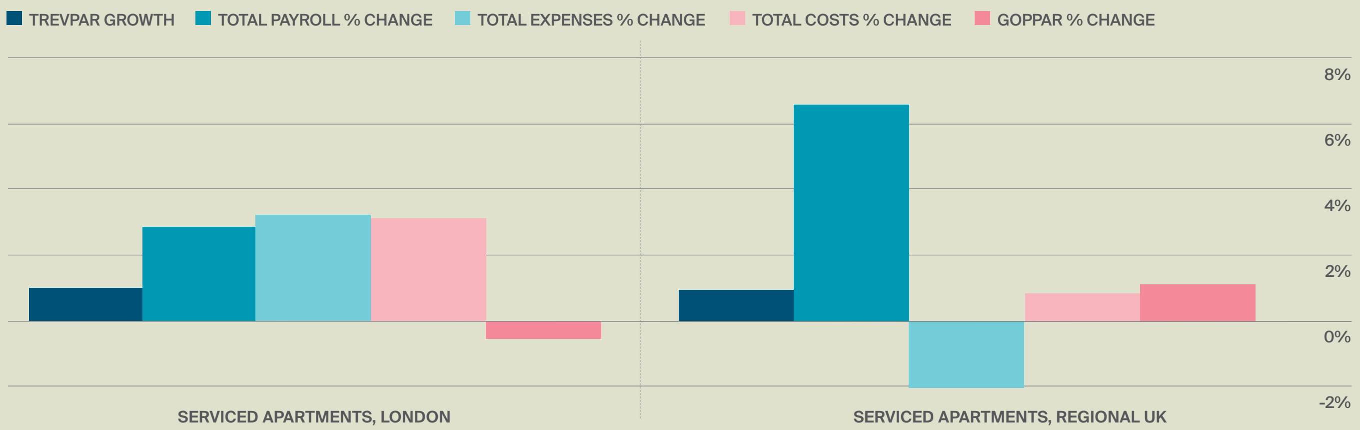
Serviced apartments, Regional UK – undistributed operating expenses PAR



Source: HOTSTATS

Impact of change in costs on profitability

% Change 2024 v 2023



Source: HOTSTATS

Hotel trading outlook

PHILIPPA GOLDSTEIN,
SENIOR SURVEYOR – HEAD OF HOTEL RESEARCH

Following the disruption that has impacted the sector in recent history, 2024 can be regarded as a relatively peaceful year, where the UK hotel sector continued its recovery, and profited from a more tolerant macro-economic environment in the short-term. Despite costs continuing to rise, the impact of lower rates of inflation, increased inbound visitor arrivals and the continued return of the conference and meeting segment, all facilitated the respectable growth in profits.

The year ahead is set to be far more challenging with the forthcoming increases to the cost of labour and increased expenses, as suppliers also feel the pain, coming at a time when the sector is reaching a much more stabilised level of revenue performance.

Whilst there is growing pressure on the government to deliver on its manifesto commitment to replace business rates, any change is unlikely to take effect before 2026. Moreover, with the 2023 business rates valuations based on 2019 trading, with a discount applied to reflect the impact of COVID, there is a strong possibility that this allowance will be removed and valuations rebased on 2024 trading.

With total payroll costs equating to almost 26% of total revenue as an average across all London hotels and 31% across regional UK, and representing approximately 45% of the total annual costs to run a hotel, operators cannot afford to stand still. Whilst the consequences of the pandemic may now be in the past, the lessons learnt are perhaps more longer lasting. Those operators that reacted by relinquishing their employees were amongst the slowest to rebound when the market turned.

The upward pressure on labour cost may, however, serve to be a force for change. Embracing and adapting to the pace of change and understanding the role that technology can play, will serve to drive efficiency through streamlining operations, operating more sustainably, thereby reducing operational expenses, as well as keeping competitive by closely monitoring market trends and maximising revenue growth.

With the rapid advancement in technology, there is now no part of the customer's journey left untouched, with chatbots, smart technology, hotel-apps, energy-saving technology, and robots to name a few, all leading to a culture of innovation. With the Millennial generation gaining increasingly more spending power, this technologically literate cohort make their booking decisions based upon digital convenience and increasingly personalised, customised experiences, that are aligned with their values. Investing in a modern-day tool kit, powered by technology, is now a necessity to remain competitive – but with it comes new pressures including integration hurdles, data security risks and striking a balance between personalisation and privacy.

As the pendulum swings between lower revenue growth and the weight of rising costs, the sector's stoic resilience to adapt, automate and flex is likely to be astutely tested. Our thematic outlook for 2025 'being realistic, yet optimistic', acknowledges the potential for significant turbulence in the short term, but considers there to be ongoing opportunities to be exploited, most notably from the anticipated increase in demand from the US and Asian markets.

"Despite costs continuing to rise, the impact of lower rates of inflation, increased inbound visitor arrivals and the continued return of the conference and meeting segment, all facilitated the respectable growth in profits."

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We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you.

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Front cover picture: The Resident Edinburgh, opened November 2024, majority owned by Mactaggart Family & Partners, part of The Resident Hotel Group

HOTSTATS
Hospitality Intelligence

Is a global data benchmarking company that provides specialized performance analysis and a benchmarking platform that services hotels around the world. HotStats collect financial and operational data from a diverse range of hotels globally to provide hotel owners, operators, and investors with valuable insights into the financial performance of their properties against their competition –an invaluable resource for evaluating investment opportunities and weighing options for prospective investors. email enquiries@hotstats.com for more information.

We would like to express our sincere thanks to the HotStats team, our particular thanks goes to David Stephens and Leah Hewlett.

Glossary of terms

POR/PAR	POR/PAR Per Occupied Room / Per Available Room
Occupancy %	The number of rooms sold as a proportion of available rooms for a specified time period.
ADR (Average Daily Rate)	Calculated by dividing a hotel's total room revenue by the number of rooms sold for a specified time period.
RevPAR	The total Rooms Revenue divided by the total number of available rooms during the period.
TRevPAR	Total Revenue from all operating departments plus rental income divided by the total available rooms during the period.
DOI	Departmental Operating Income – Total Revenue less total Departmental Operating Expenses; expressed as a percentage of Total Revenue or divided by the total available rooms during the period.
Undistributed Operating Expenses	Expenses attributable to the whole hotel, but not allocated to a specific department. These expenses are typically split between Administration & General; Sales & Marketing; Property, Operations & Maintenance; and Utilities.
GOP	Total Revenue less Operating Expenses (Departmental Expenses and Undistributed Operating Expenses).
GOPPAR	Total Gross Operating Profit across all revenue streams divided by total available rooms during the period.
Payroll %	Departmental Payroll (or Total Departmental Payroll) as a percentage of departmental revenue (or total revenue).

Knight Frank