

After a record-breaking 2024, the UK hotel sector entered 2025 with a steadier rhythm. Global uncertainty and persistent inflation tempered momentum, yet the market remained resilient. London saw a marginal dip of 0.5% in revenue per available room (RevPAR) in 2025, according to hotel data platform CoStar with STR Benchmark, while RevPAR in the UK regions grew by 1.4%. Nevertheless, a changing operating landscape meant that occupancy levels became more fragile.

Deal activity mirrored the moderate levels of revenue growth. Following the surge of deals in 2024, there was a shift to selective single-asset transactions in 2025, led by domestic investors with private capital, while institutions remained cautious. Increased costs meant that margins became tighter, but liquidity remained stable due to better financing options.

A tale of two subsectors

Data for the first three-quarters of 2025 show a nuanced picture for UK hospitality insolvencies. Accommodation and food services insolvencies fell 3.6% year-on-year (YoY), the Office for National Statistics (ONS) found, hinting at easing financial distress, yet this aggregate figure masks contrasting subsector trends.

Accommodation insolvencies increased by 7.4% YoY, driven by the withdrawal of post-Covid-19 business rates relief, slowing revenue growth, rising labour costs and higher debt servicing. In contrast, the food and beverage sector recorded a 4.4% YoY decline in insolvencies, indicating relative resilience supported by stabilising consumer demand, tighter cost control and the continued appeal of experiential dining.

While the overall contraction in insolvencies is encouraging, the divergence between accommodation and food and beverages underscores the need for differentiated strategies. Hotels remain vulnerable to structural headwinds, whereas food and beverage operators appear better positioned to adapt to evolving consumer behaviours and operational pressures.

Medium-term outlook

The Office for Budget Responsibility has forecast inflation of 2.5% for 2026 and 2% for 2027. Meanwhile, UK hotel RevPAR is expected to grow by only 3.5%–4% over the next 24 months, reports CoStar with STR Benchmark. As a result, the business outlook for the hospitality sector appears challenging. Insolvency risk is set to rise as businesses that have already been weakened by years of elevated costs face new pressures. The increase in employer National Insurance contributions, brought in from April 2025, has pushed labour costs up, while the implementation of a new business rates revaluation in England and Wales, from April 2026, will add further strain. Margins will remain under pressure, making cost efficiency and strategic planning critical for navigating this turbulent period.

Over the next 12–24 months, hotel demand and profitability will be shaped by several pressures. Asylum-seeker housing contracts will taper by mid-2026,

returning rooms to the competitive market and reducing guaranteed occupancy for some operators. As spending power continues to be eroded, leisure travellers may shorten trips or stay domestic. Meanwhile, economic slowdown and geopolitical tensions could reduce business travel and overnight stays. A key concern is a potential decline in American leisure travel to the UK, a major driver of high-end demand. Furthermore, energy prices remain elevated. With modest RevPAR growth ahead, operational agility and diversification will be essential to sustain profitability.

Strategic hotel review

While challenging trading conditions will drive some hotels to enter formal insolvency proceedings, insolvency practitioners (IPs) will have the opportunity to intervene earlier in many cases. In fact, pre-emptive involvement offers broader options and typically better results. ▶

Room at the inn

Insolvency levels for UK hotels are expected to rise, but the sector also offers opportunities for pre-emptive turnarounds, say **Pierre Ricord** and **Hortense Cristofari**

By conducting a strategic hotel review, IPs can focus on the quickest, most effective routes to boosting income, cash surplus, profit and asset value. This may involve cutting non-essential costs, optimising staffing or renegotiating supplier terms. These actions can support lenders to consider a turnaround before a consensual sale, especially when alternative investments are likely to yield limited returns.

A strategic review should give a clear picture of the commercial, operational and asset performance of a hotel, highlighting strengths, gaps and opportunities. It should consider:

1. Market positioning and commercial strategy

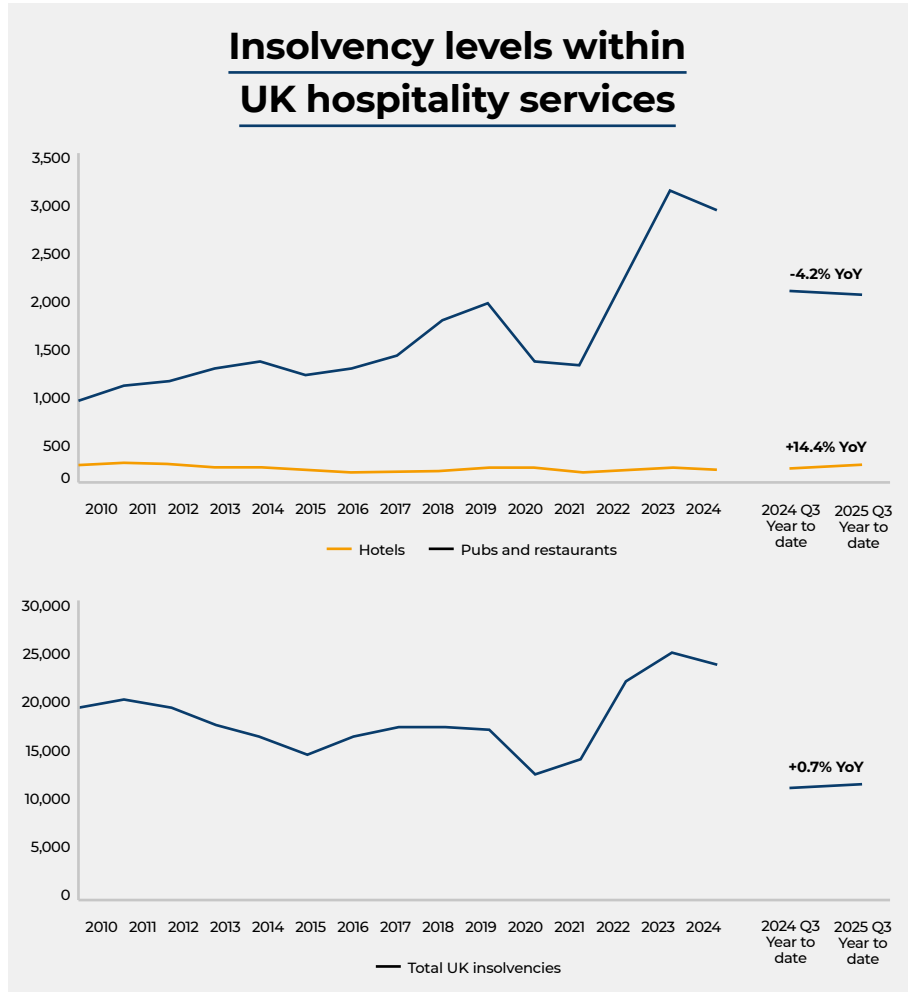
The IP should understand the business mix of the hotel, its client base and ability to shift demand. This involves analysing trading conditions and outlook, benchmarking performance against competitors and assessing revenue management opportunities. It is also important to evaluate the hotel's online visibility, distribution mix (approaches used to sell rooms) and strategies for growing its average daily rate (average revenue earned per occupied room).

2. Operations and performance management

The IP should examine the hotel's staffing levels, leadership capability and outsourcing commitments and address customer experience using feedback and market comparisons. They should also review the hotel's physical condition and any opportunities to repurpose underused spaces. Additionally, it is key to analyse operating statements and ratios against benchmarks, and check the competitiveness of supplier contracts and agreements.

3. Real estate and other physical assets

The IP should verify the hotel's energy performance certificate rating and its compliance with environmental and social regulations. As part of their assessment, the IP should identify both immediate and long-term capital expenditure needs. In the case of a hotel chain, the IP should also assess individual hotels' compliance with the chain's brand standards and estimate the likely costs



of a property improvement plan (PIP) to bring hotels in line with those standards.

Franchising and management contracts (bringing in specialised operators to run daily operations) can potentially provide struggling hotels with new commercial channels, global distribution, loyalty programmes and booking platforms, expanding their visibility and unlocking new customer segments. These benefits come with royalty and system fees, however, plus potential capital or PIP obligations. So, it is essential to assess net profit impact. Simulating incremental revenue against associated costs can help to determine whether alignment with an established brand enhances profitability or compresses margins.

When involved pre-emptively, IPs will need to consider and compare the option of an exit alongside the option of continuing operations. So, they will need knowledge of active buyers' profiles as well as a robust narrative that highlights the upside potential of the hotel and any projects that are likely

to deliver a solid return on investment should capital be deployed.

Positive signs

The EU's Recovery and Resilience Facility is directing funding into infrastructure, sustainability and tourism, which should stimulate the European economy and boost travel demand – to the benefit of UK hotels. While global travellers remain important, Europe's strong domestic base continues to provide resilience against external shocks. Overall, there are good reasons to stay positive about the UK hospitality sector, but early engagement by IPs will be key to supporting the sector's short-term recovery, medium-term vision and long-term success.



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