

Finding bright spots

Unlocking opportunities in the hospitality sector

by Stephen McCall and Souad Cherfouh

After weathering the pandemic, the hospitality sector has been experiencing record levels of growth and is rapidly evolving in line with changing consumer preferences and innovation. Hotel investment, once considered an alternative asset outside mainstream real estate, is now attracting significant interest from a broader investment audience. Investors increasingly recognise that the sector's multiple value drivers and ability to hedge against inflation through dynamic pricing mechanisms more than outweigh its inherent cyclical risks.

The sector is experiencing long-term, structural supply shortages, particularly in key European cities, Japan and South Korea, where the development of new hotels is highly restricted by development costs and planning restrictions — a favourable dynamic that supports long-term growth in room rates. This shortage of new hotel developments leaves the upgrade and conversion of existing hotels as the primary route to value creation, with significant scope for experienced operators to add new technology, processes and brand models that enhance guest experience while also improving profitability. Hospitality operators that prioritise technological innovation and advanced revenue management capabilities have the potential to deliver above-average growth.

Beyond the pent-up demand for travel following the pandemic, market forces elevating the hospitality sector's trajectory include the revival of corporate travel enhanced by the “bleisure” phenomenon, evolving consumer behaviours that are reshaping global travel patterns, the influence of artificial intelligence (AI) and social media on travel decisions, technological innovations, growing middle classes, and generational shifts that are accompanied by changing spending priorities. Millennials and Gen Z, for instance, devote about a third of their income to travel experiences and increasingly view travel as nondiscretionary spending. Younger travellers are also increasingly

motivated by social media, making digital platforms a substantial revenue acquisition channel for hotel operators.

Key regional trends shaping the industry

We see Japan, South Korea and Europe as key growth markets, with multiple tailwinds set to drive future demand for hospitality real estate.

In Asia Pacific more broadly, the hospitality sector is benefitting from the growth in tourism across the region fuelled by the expanding middle

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classes, improved air connectivity, relaxed visa policies and national strategic tourism campaigns. In 2025, international arrivals are expected to surpass pre-pandemic levels by 2.6 percent, reaching approximately 700 million visitors, according to CBRE. Meanwhile, sustainability is becoming increasingly important to guests and therefore hospitality brands, and hotels with strong environmental, social and governance (ESG) practices are outperforming in an environment of rising energy costs and a heightened focus on carbon impact. Investments by hotels in energy efficiency, waste reduction and community engagement are now standard practices.

The hospitality sector in Asia Pacific is seeing strong government support with several initiatives designed to boost the travel industry. For example, Japan plans to further strengthen its tourism sector



St Pancras International train station, London

through a strong emphasis on sustainable tourism, revitalising accommodation and conserving natural environments; encouraging domestic tourism with the construction of larger resorts in hotspots



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such as Osaka; and attracting more international visitors through the development of its ski areas.

In Europe — the world's most visited destination — the growth in leisure travel continues unabated, while corporate travel is expected to return to pre-COVID levels in most markets this year. In 2024, Europe saw 747 million tourist arrivals according to UN Tourism data, which is 1 percent above 2019 levels and 5 percent over 2023. This surge is not only a short-term recovery following the pandemic but rather a reflection of deeper, structural tailwinds shaping and supporting the industry. Europe's rich and diverse cultural heritage — with the region often dubbed the “museum of the world” — will continue to act as a major magnet for international travellers, underpinning long-term demand.

According to the United Nations, cross-border tourist arrivals into Europe are forecasted to grow more than 35 percent by 2030, primarily driven by travellers from Asia Pacific, especially those from Southeast Asia. However, historical supply growth in Europe has been modest at low single digits annually, and in recent years supply has been further dampened due to the increased costs and risks associated with ground-up developments. This has created a persistent imbalance with demand, exerting upward pressure on existing properties, many of which are undermanaged and underinvested.

Beyond the region's supply/demand imbalance, Europe is an attractive investment destination due to the significant branding and consolidation opportunities for hotels. While in the United States the majority of hotels are associated with international brands, there is significant room for branding and consolidation opportunities in Europe (where only 40 percent of hotels are branded versus nearly 80 percent in the United States). This is particularly true in the luxury and lifestyle segments, where demand is increasing as travellers seek more experiential stays.

On the back of these favourable market dynamics and strong fundamentals, investor appetite for hotels in the region has seen record growth, with transaction volume in Europe totalling €21.9 billion (US\$24.7 billion) in 2024, the highest level since 2019 and an 8.2 percent increase on the 10-year average, according to Savills.

Shifts in trade dynamics are expected to cause ripple effects throughout the hospitality industry, with indirect consequences from a slowdown in

global economic growth likely to be more significant than any direct effects. And while the specific longer-term outcomes and regional effects of these shifts remain uncertain, we anticipate that they could lead to redirected tourism flows. Although the hotel sector could experience slower growth as revenue per available room (RevPAR) tends to track GDP, we believe hotel operators that are able to combine local market knowledge, operational expertise and global perspectives are better equipped to grow revenue share.

Deep dive: Opportunities in Europe

Europe remains a highly diverse and differentiated region, and so investment opportunities must be carefully screened in accordance with a wide variety of economic and microlocation performance dynamics.

At Partners Group, we have identified specific markets, cities and neighbourhoods with attractive fundamentals where we find acquisitions to be most compelling. We favour the upper-midscale to entry-luxury segments in key gateway cities in the west and south of the continent, which are large and culturally important metropolitan markets that benefit from diverse revenue sources and high market liquidity. Furthermore, these target cities have high barriers to entry and year-round appeal.

We made a strategic investment in 2024 in Trinity Investments, a vertically integrated hotel investor with additional capability in development and asset management and more than 25 years of experience in acquiring and transforming hotels. This is consistent with our broader strategy to seek vertical depth in high-conviction sectors where we see benefits in controlling more of the value chain and accessing the specialist expertise of best-in-class operators.

Underlining our conviction in the European market, we acquired The Standard International's flagship European hotel asset, The Standard London, in November 2024 alongside Trinity and other investors. This unique lifestyle hotel is located in the heart of London directly opposite St Pancras International station and includes 266 rooms and suites, six exceptional food and beverage offerings and a rooftop bar, and 205 square metres of meetings and events space. This transaction was London's largest single-asset hotel acquisition in 2024. While demand in the luxury hospitality market in Europe is increasing, investors exploring the sector should be aware of the pivotal role highly trained staff play in supporting premium pricing. Customers in the luxury segment expect and demand a certain level of personalised service, so finding an optimal balance of efficiency and staff engagement is important. While the hospitality sector

Hospitality investment criteria in key target markets

Structural market demand

Gateway cities/regions that hold growing demand across domestic and international visitors

Shift in consumer behaviour

Luxury travel is increasingly viewed as an essential life experience rather than a discretionary expense

Market fundamentals

High barriers to entry, high occupancy, positive net demand, demand growth outpacing supply

Year-round appeal

Target cities/regions that are not overly cyclical or seasonal and offer a steady flow for both business and leisure

Source: Partners Group

does present challenges such as labour shortages, wage inflation and regulatory hurdles, these risks are often more manageable for investors when working with specialist operators.

Hospitality's next chapter

There are compelling opportunities in the hospitality sector for investors to partner with experienced managers that have deep knowledge of evolving consumer behaviours, market dynamics and the operational intricacies of hotels. Where location once was all that mattered, it is now equally important for the next generation of travellers to experience something different and enriching, and hotels are the primary vehicle to facilitate this. Investors who can balance the more subtle art of experiential service without compromising operational efficiency will continue to enjoy outsized returns relative to the broader market.

Moreover, partnering with forward-thinking hospitality operators that prioritise technological innovation and revenue diversification should be a primary consideration. The ability to leverage dynamic pricing strategies by using advanced technologies and AI systems to adjust rates regularly, control costs and enhance guest experiences could drive returns that only larger platform operators can accomplish. ❖

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