STR/TE Market Forecast Assumptions – May 2025

Europe short-term outlook:

Aggregated growth in revenue per available room (RevPAR) for STR's 31 European forecast markets is projected at 1.7% for 2025, a downgrade from the 2.4% increase projected in February 2025.

Demand more at risk than rate

Demand growth has slowed substantially across Europe with 21 of 31 forecast markets at reduced occupancy growth expectations for the year. While growth has decelerated, 22 markets still expect 2025 occupancy to pace ahead of 2024. Hotel rates remain sticky, despite the slower demand growth, and 18 forecast markets expect increases in average daily rate (ADR) this year. Given the packed events calendar of 2024, which included the UEFA Euros in Germany, the summer Olympics in Paris, and Taylor Swift's wildly successful Eras tour, the continued rate growth points to increased sophistication in revenue management, as well as hotelier concerns over meeting debt service.

Changes to the 2025-26 outlook are modest for most markets

Annual changes to the forecast are modest and predominantly driven by a softer than expected Q1 2025. Market performance is expected to remain in line with prior expectations in the second half of the year, and big swings in monthly or quarterly performance are typically due to changes in pipeline expectations or event announcements.

The U.K. is more at risk and more likely to report an ADR decline

U.K. performance drivers are diverging from those in Mainland Europe, and seven of the 10 U.K. markets are among the most changed forecasts this quarter. A confluence of factors affecting corporate and leisure demand in the U.K. have led to heightened price sensitivity, leading to at times dramatic declines in ADR.

Higher inflation than many European countries, as well as the continued climb in energy prices, will affect leisure travel, and continued competition with Mainland Europe destinations will pressure pricing power. On the corporate front, changes to the NIC threshold and national insurance rates have reduced travel budgets, especially among smaller businesses.

Finally, the exchange rate remains an important factor. As the U.S. dollar depreciates and GBP appreciates, international inbound travel is increasingly expensive. That shift reduces pricing power and will likely lead to ADR declines in more internationally-reliant markets like London.

Uncertainty leads to short-term disruption

Periods of high uncertainty can cause confusion and short-term disruption in performance, as evidenced by a weaker than expected March and April 2025. For short- and medium-haul travel, that disruption caused by the slew of tariff announcements out of the U.S. has passed and most markets have returned to "business as usual." For long-haul travel, uncertainty within the U.S. likely led to fewer future bookings made between February and April 2025 but didn't change existing travel plans. That suggests that demand from the U.S. over the summer period is likely to continue, with disruption to long-haul travel more likely to materialize beginning Q3 2025.

Asia Pacific short-term outlook:

STR's 16 Asia Pacific forecast markets are forecasted to increase RevPAR 3.0% in 2025, with ADR the primary driver. While the 2025 forecast reflects a 170-basis point downgrade, sample growth plays an outsized role in the forecast adjustment, as 2024 RevPAR growth for the aggregated markets has been revised down 110 basis points.

Rate growth a greater challenge than occupancy

While price sensitivity is a common theme across hotel markets globally, the impact on performance varies by region. Across the Asia Pacific, rate growth is more at risk than occupancy growth, with just six markets expected to report occupancy decline in 2025, compared to nine anticipating ADR softer than in 2024.

Mainland China markets are most at risk for ADR declines, as a challenging economic environment and increased uncertainty caused by the U.S.'s threatened tariff war have severely restricted corporate travel. Increased competition from international destinations likewise limits pricing power for leisure destinations, although the recent success of the May Day holiday raises expectations for a decent summer season.

Supply a key factor underlying RevPAR growth

While 2025 annual supply growth rates are reasonable for most Asia Pacific markets, some markets, including Singapore and Auckland, are coming off big development pushes and expect much softer performance in the first half of the year, when supply growth remains higher, relative to the second half as openings taper and the markets have time to absorb new rooms.

Other markets have either just started or are mid-development spike. The markets with the highest supply growth this year – Chengdu (+3.0%), Auckland (+3.1%), and Brisbane (+6.6%) – also expect limited or no RevPAR growth in 2025.

Supply growth will influence performance beyond 2025 as well, with RevPAR in Brisbane and Melbourne under substantial pressure from new rooms in 2026.

International inbound has significant impact on forecast

The first half of 2025 has been challenging for Bangkok, as the Asia Pacific market with the biggest performance downgrade now anticipates a 0.8% RevPAR decline in 2025, driven by a 2.5% decline in occupancy.

While the Myanmar earthquake in late-March did impact Thailand, a limited demand environment has been largely caused by declines in international tourist arrivals. The Thailand Tourism and Sports Ministry reported a modest 0.26% decline in international visitors YTD through April 2025. That small decrease was driven by Thailand's largest source market – China – whose international arrivals have fallen 25% relative to the first four months of 2024.

Despite the decreased arrivals, the Ministry has reported year-over-year increases in tourism revenue, attributed to long-haul source markets like the U.S. and Europe. This shift towards higher-rated long-haul travel will assist Bangkok in pushing ADR 1.8% in 2025 despite the decline in occupancy.

Chinese travelers continue to make an impact across the region. Visitor arrivals from China are up 3.3% year-over-year YTD through April 2025. As the largest international source market to Singapore, the healthy growth will help support 2.0% demand growth in 2025. The price sensitivity evident in China has surfaced in Singapore as well. Combined with shifts in the Lunar New Year and Formula 1 race, as well as offsets from the Eras tour concerts in 2024, that price sensitivity is reflected in a forecasted ADR decline of 0.2% in 2025.

Further north, international inbound travel continues to bolster Tokyo's hotel industry. The depreciated yen is now further supported by Expo 2025 Osaka. Tokyo hoteliers pushed rates 22.1% in April, the Expo's opening month, a spectacular growth rate well ahead of the 15.6% reported in Q1 2025, While short-haul travelers are less likely to stopover in Tokyo, long-haul attendees are more likely to spend time in Tokyo as well as Osaka.

ADR growth is expected to remain strong over the popular summer travel months before the World Athletics Championships in September 2025 and Expo's closing in mid-October. Tokyo's pricing power is further supplemented by a limited pipeline.

Middle East short-term outlook:

The four Middle East markets continue to outperform expectations, despite a challenging pipeline. RevPAR growth for 2025 has been upgraded 260 basis points from the February 2025 forecast, with Abu Dhabi, Dubai, Jeddah, and Riyadh expected to increase RevPAR 5.4% this year. The upgrade comes primarily from the UAE markets, which have a much more established supply base and more modest pipelines than the rapidly changing Saudi Arabian markets.

Rate drives RevPAR

ADR (+4.2%) remains the primary driver of RevPAR, with stronger rate growth in three of the four Middle East markets. For Dubai and Abu Dhabi, this represents a reversal of trend, as occupancy has predominantly driven RevPAR growth over the past 19 years. Market maturation and stabilized supply growth have helped shift the balance of RevPAR growth in 2025, although event offsets will impact ADR more than occupancy in Abu Dhabi next year.

ADR growth prospects are better than occupancy in Riyadh as well. While that has been the case for much of the past two decades, it remains true both short- and long-term as the market has started to move heavily into the Luxury segment. Despite 5.4% supply growth in 2025 and 10.2% in 2026, a high preponderance of new Luxury rooms will help the Saudi capital to continue increasing ADR.

Ramadan impacts vary by market

For internationally reliant UAE markets, Ramadan impact on hotel performance has lessened each year. This change can be attributed both to increased Westernization, which limits restrictions placed on international visitors during the Holy Month, and Ramadan's movement into the Q1 high season. That trend is expected to continue, with compression in surrounding weeks as more regional corporate and leisure travel occurs in the leadup and post-Ramadan period, allowing for 1.1% RevPAR growth across both markets in Q1 2026.

Less Western and more domestic Saudi markets continue to be significantly affected by Ramadan, with Riyadh finding the Holy Month a greater challenge than Jeddah. The latter market benefits from its location and accessibility to the Holy Cities, which helps maintain occupancy as pilgrims stopover before or after their visit to Makkah or Medina.

As the Saudi capital and Kingdom's corporate hub, virtually all travel into Riyadh comes to a complete halt during Ramadan. While surrounding weeks may compress as the Holy Month moves into the high season, Q1 2026 RevPAR for both markets will decline 7.8% year over year.

Long-term outlook: Long-term expectations are largely unchanged, with regional demand and RevPAR expected to rise annually across the world from 2027 through 2029 as well as minimal adjustment to year-over-year growth from 2027-29. Four markets are projected for an annual RevPAR decline in 2027, with high supply growth a commonality across all markets. RevPAR is expected to rise across all markets in 2028 and 2029.

The further out the forecast, the greater the role macroeconomic forecasts and supply growth play. As event calendars take shape and the global outlook shifts, these forecasts will be adjusted.

Mainland China and Japan sample change: STR continues to grow hotel participation to provide clients around the world with the best and most representative performance data. Over the past 18 months, several large brands based in Mainland China have started to submit historic performance data backdated to 2023. Due to the size and scale of this submission, data loading has been ongoing since Q4 2023 and is expected to continue through the remainder of 2025.

As of Q1 2025, major brands in Japan have likewise started to submit historic performance data, with data loading expected to continue through 2025.

In the short term, actualized ADR and RevPAR may be affected as data is loaded on a rolling basis. As a result, the six Mainland China forecast markets and Tokyo will likely report significant revisions to both historic and forecast performance each quarter.

We will continue to update our forecasts on a quarterly cadence with the historic data available at time of forecast.

Supply methodology: Historic and forecast data utilizes STR's **standard methodology**, which considers supply for all open hotels in a market and does not include temporarily closed properties.