

OakNorth Sector Pulse
December 2025

HOSPITALITY & LEISURE



OakNorth



Industry overview

Over the last six months to 31 October 2025, the UK's leisure and hospitality sector has faced a finely balanced trading environment. After a brief pause earlier in the year, inflationary pressures have firmed again. Additionally, structural cost pressures from the National Living Wage (NLW) employer National Insurance Contributions (NIC), and business-rate adjustments have continued to squeeze margins. As a result, operators have increasingly relied on tactical pricing and technology-led efficiencies to protect profitability amid these structural headwinds.

The first three quarters of 2025 saw steady but cautious consumer demand, underpinned by easing utility bills and selective real-income growth. However, policy uncertainty ahead of the Autumn Budget and sustained input inflation left operators wary of expansion.

Hotels benefitted from inbound tourism, particularly from high-spending long-haul markets such as Saudi Arabia, Canada, and the UAE, while domestic travel softened as households prioritised affordability. Within food and beverage serving sectors, the summer months brought mixed results overall. Pubs with outdoor seating thrived in the hot weather and benefitted from major sporting events, whereas many full-service restaurants and bars struggled to maintain momentum and remained subdued, particularly during mid-week and late-night hours.

Furthermore, investment activity has normalised from 2024 highs, with capital remaining available for well-branded, operationally efficient assets, but secondary sites continue to experience pricing pressure.



Key trends of the last six months

Value-led demand continues

Consumer sentiment improved modestly as the Bank of England delivered successive rate cuts earlier this year, supporting disposable income. Yet, value-seeking behaviour dominates, with two fifths (39%) of UK adults citing accommodation cost as a booking barrier, while just under half (48%) cite overall trip costs as their key concern. This persistent focus on affordability indicates that value will remain a primary demand driver well into 2026, particularly across mid-market leisure segments.



Consumer sentiment is rising, but value and affordability remain key travel drivers into 2026

The rise of residential pubs

The past six months saw the pub and bar segment split along structural lines. Residential pubs with large outdoor areas and beer-gardens thrived through summer, due to the hot weather spells and major sporting events, such as the Women's Euros Wimbledon, the British & Irish Lions tour to Australia and the international cricket season. Meanwhile, city-centre bars remained constrained by mid-week softness, late-night safety concerns, and high rent/energy overheads.



Pubs thrived on summer events, while city bars faced weak trade and high costs

Domestic tourism softens, but inbound strengthens

Recent data from VisitBritain revealed that domestic overnight trips fell 7% YoY in H1 2025, even as total spend rose 12% on premium short breaks. In contrast, inbound air arrivals grew 2% YoY, driven by affluent long-haul visitors. Furthermore, long-haul flight-search activity rose 20% YoY in September 2025, led by Saudi Arabia (+62%) and China (+35%).



Domestic travel dipped, while long-haul demand from Saudi Arabia and China surged

QSRs outperformed the food service market

Quick-service restaurants (QSRs) continued to outperform the food service market, leveraging value bundles, loyalty apps, and hybrid-work footfall. Casual dining and Full-service restaurants lagged amid higher fixed costs and soft footfall (due to consumers' price sensitivity), which saw more than two venue closures per day in H1 2025 as independents faced cash-flow strain. This "two-speed" performance reinforces the resilience of value-oriented QSR's and the structural vulnerability of Full-service venues reliant on discretionary urban spend.



QSRs grew on value, while full-service restaurants struggled with costs

The rise of technology

Some of the biggest hospitality operators, such as Marston's and Stonegate Group, accelerated automation and AI investment, including demand forecasting, dynamic staffing, and self-service technology, to counteract wage inflation. Operators increasingly view tech adoption as essential for margin protection, not just service enhancement. As technology integration deepens, it is emerging as a key differentiator in maintaining profitability across both hotel and restaurant portfolios.



Hospitality operators adopt AI to offset wage pressures and protect margins

Investment activity normalises

Following last year's surge, 2025 volumes stabilised as investors shifted toward single-asset transactions and prime, branded assets in gateway cities. Prime yields remained broadly stable, while secondary yields softened marginally amid cost uncertainty. This normalisation reflects an orderly recalibration of the market, with selective capital deployment favouring operational resilience over scale for its own sake.



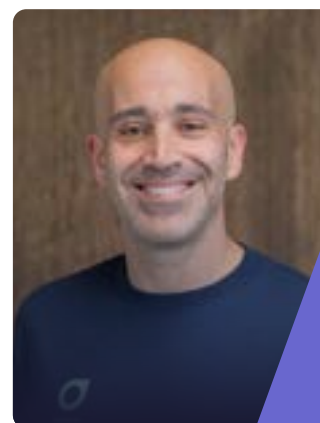
Hotel investment stabilised, focusing on prime, resilient assets



At OakNorth, we believe in backing entrepreneurial hospitality businesses at a time when others may be retrenching. The past six months have demonstrated the sector's remarkable adaptability, from the strong summer performance of pubs and restaurants, supported by major sporting events and great weather, to the continued success of innovative operators in quick-service and casual dining.

Whether it's the rapid QSR roll-out of Honest Burgers, the regional and aparthotel expansion of Countrylarge, the disciplined growth of Flat Iron, or the development-to-trading model behind the Motto by Hilton in Manchester, our approach is consistent. We back experienced operators and developers who have clear strategy, operational discipline, and the foresight to adapt to evolving consumer behaviour.

As we move into the festive period, we're particularly encouraged by the resilience of pubs and bars, which continue to play a vital role in their communities and remain a cornerstone of UK social life. Where many lenders have stepped back, OakNorth has remained open for business — offering flexible facilities, full lifecycle support, and deep sector expertise. For us, backing the right hospitality businesses now, from summer trading through to festive peaks and beyond, is key to helping the industry capture long-term value as it continues to recover and evolve."



Ben Barbanel
Chief Lending Officer



Motto by Hilton Hotel in Manchester

In May 2025, OakNorth provided a £15.7m loan to Ancoats Manchester to deliver a 154-key Motto by Hilton hotel in Manchester's East Village.



FLAT IRON

Flat Iron's UK Expansion

Also in September 2025, we backed the growth plans of [Flat Iron](#), the high-quality affordable steak brand backed by McWin and TriSpan, by providing a senior debt facility to support expansion across the UK.



Largest indoor go-karting operator

In November, 2025, we provided a £5m RCF to [TeamSport Indoor Karting](#), the UK and Europe's largest indoor go-karting operator, to support working capital and expansion activity across its 43-site estate.



HONEST

Honest Burgers' Expansion

In July 2025, we provided a senior debt package to [Honest Burgers](#) to support its expansion plans, including the scaling of its new "Smash + Grab" quick-service format.



Countrylarge.

New Beyond Aparthotel in Harrogate

In September 2025, we provided a £3.6m loan to [Countrylarge](#), a Harrogate-based property developer, to support a new 17-key aparthotel operated by the Beyond Aparthotels brand, in Harrogate town centre.

Outlook for the next six months

A cautious outlook

The overall hospitality sector enters the winter months on cautious footing. Inflation is forecast to hover around 4%, while real wages remain modestly positive. However, continued fiscal tightening in the Autumn Budget may limit discretionary income growth and delay further recovery in mid-market dining and travel. As a result, we expect operators to focus on tactical pricing, shorter booking windows, and flexible staffing to preserve cashflow through early 2026.



Hospitality enters winter cautiously amid inflation and fiscal tightening

Festive resilience for pubs and bars

We expect community and destination pubs to enjoy a solid festive period, boosted by major sporting events, such as the men's Ashes in Australia, and annual Christmas social gatherings. However, energy and excise duty inflation will continue to pressure profits, and the sector's "margin ceiling" is unlikely to lift materially. Urban pubs may benefit from partial return-to-office mandates heading into 2026, while late-night bars face ongoing demand fragility. Furthermore, operators are likely to pursue premiumisation within value frameworks, focusing on local provenance, craft beverages, and experience-led offers rather than across-the-board price rises.



Pubs anticipate a strong festive season but remain pressured by rising costs and weak late-night demand

Hotel occupancy levels expected to stabilise

Looking ahead, average daily rate (ADR) and occupancy levels are expected to stabilise into early 2026, as long-haul inbound demand offsets weaker domestic volumes. The continued release of asylum-contracted hotels back into open supply could also weigh on rate growth in London and the South East regions.



ADR and occupancy to stabilise as inbound travel offsets domestic weakness

The case for casual dining

The casual dining segment will see selective growth through consolidation, led by established brands acquiring smaller operators in regional markets. Menu rationalisation, waste control, and AI-driven scheduling will underpin margin preservation. Consumer spending on dining-out is also expected to remain irregular, focused on occasions and experience rather than frequency, favouring brands that deliver high perceived value. Furthermore, we anticipate consolidation momentum to accelerate as strong operators seek opportunistic acquisitions of distressed independents through 2026.



Casual dining growth will be driven by consolidation and value-focused consumer spending

Investment and capital markets

Gradual monetary easing and improved lender appetite may prompt mild yield compression at the prime end. Capital will remain concentrated in assets demonstrating cost discipline, brand equity, and energy efficiency. Secondary venues and late-night operators are expected to face continued valuation pressure until fiscal clarity improves. Overall, investors are likely to remain selective over the next six months, focusing on long-term fundamentals rather than short-term volatility.



Investors stay selective, favouring efficient prime assets amid cautious market recovery

Get in touch with the team at questions@oaknorth.co.uk or visit oaknorth.co.uk for more information.