SECTOR STUDY | 30th JULY 2026

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Hotel and Lodging

Research Team

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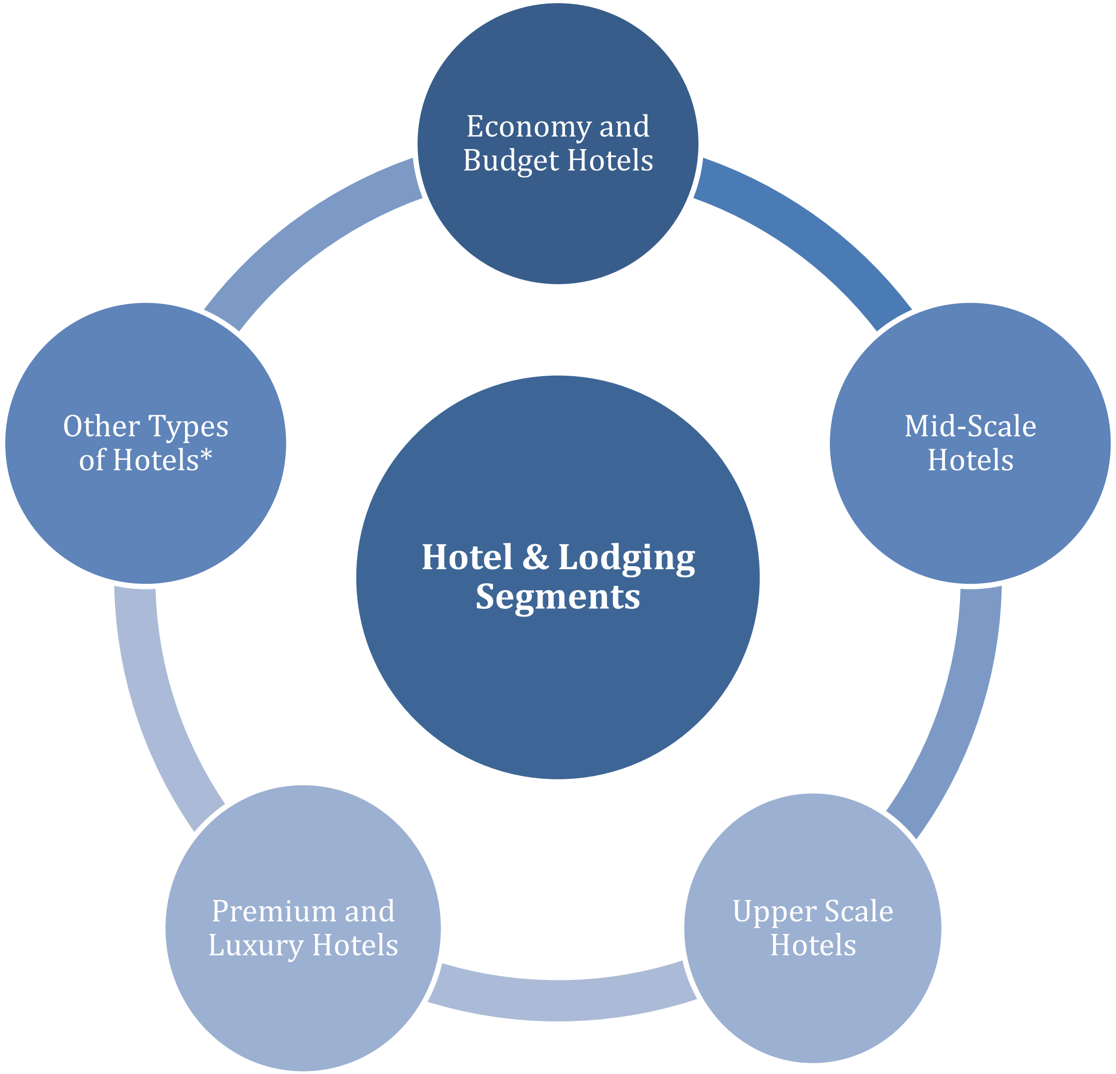
Introduction

- The Hotel and Lodging Sector is a branch of the Hospitality Industry catering to the lodging needs of customers for their short stays; therefore, this generally excludes permanent accommodation needs. There are different classifications of hotels based on the services, size, functions, ratings, and costs, broadly categorized into five Chain Scale Segments as depicted on the right.

- The Sector is subject to cyclical patterns depending on demand, supply, seasonality, and macroeconomic performance indicators over a relevant term. Additionally, factors like geopolitics, economics, terrorism/conflict, fuel market conditions, and significant climatic events can also impact the Sector.

- The primary metrics used to evaluate the performance of the Hotel and Lodging Sector are 'RevPAR' and the occupancy rate. RevPAR measures the total revenue per available room, while occupancy rate indicates the proportion of rooms that are occupied within a specified timeframe.

- The Sector was one of the most adversely impacted Sectors during the COVID-19 pandemic due to lockdowns, travel bans, social distancing, as well as vaccination requirements. Post COVID, in CY21-22, it exhibited noticeable revenue growth. In CY25, with an estimated ~1.52bn international tourists recorded around the world, ~4% higher than CY24. The Middle East conflict is expected to reduce growth in international arrivals by 1 to 2% points below UN Tourism's initial forecast of ~4% for CY26. Meanwhile, higher fuel prices and air fares are also restricting demand.



*Includes shared living spaces, Rented apartments, Service Apartments, etc.

Source: IHG, UNWTO

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Global | Overview

Globally, the Sector comprises two major business models as follows:

1. **Fee-based/Asset-Light Model (Franchised vs. Managed)**

Franchised: Hotel and Lodges are owned and operated by parties that are distinct from the brand, which pay fees to the hotel company for the use of their brand. e.g., Marriott (local).

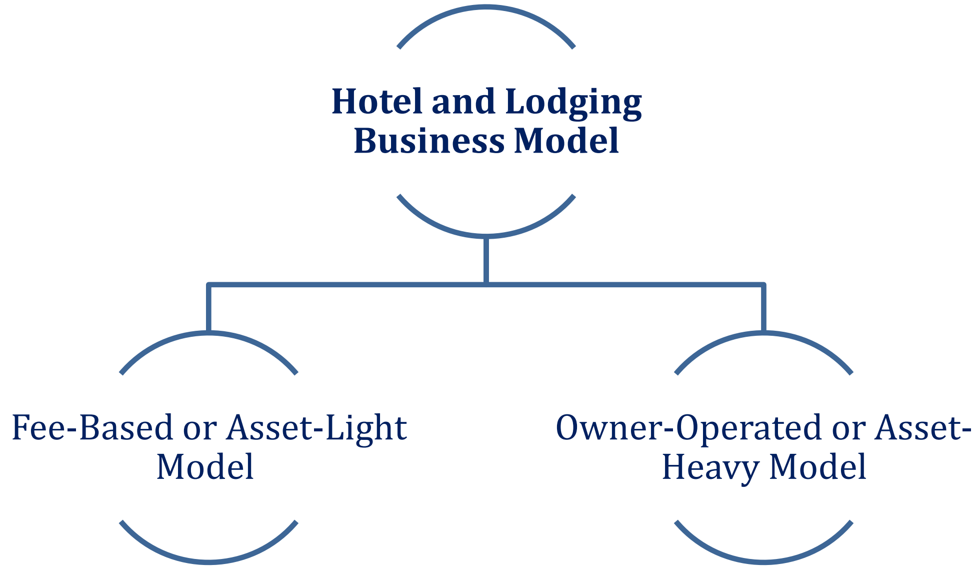
Managed: Hotel and Lodges are operated by a party that is distinct from the hotel owner and who pays management fees. If the hotel uses a third-party brand name, it pays fees to that third-party also. e.g., Hotel One (local).

2. **Owner-operated/Asset-Heavy Model (owned vs. leased)**

Owned: Hotel and Lodges are operated and branded by the owner who bears all the costs and benefits from all the income. e.g., Pearl Continental (Local).

Leased: Similar to the owned, except the owner-operator does not have outright ownership of the hotel but leases it from the ultimate owner. Like Serena Hotels & Resorts (Local).

Asset-heavy business models allow tighter control over hotel operations, whilst Asset-light models enable faster growth with lower capital investment.



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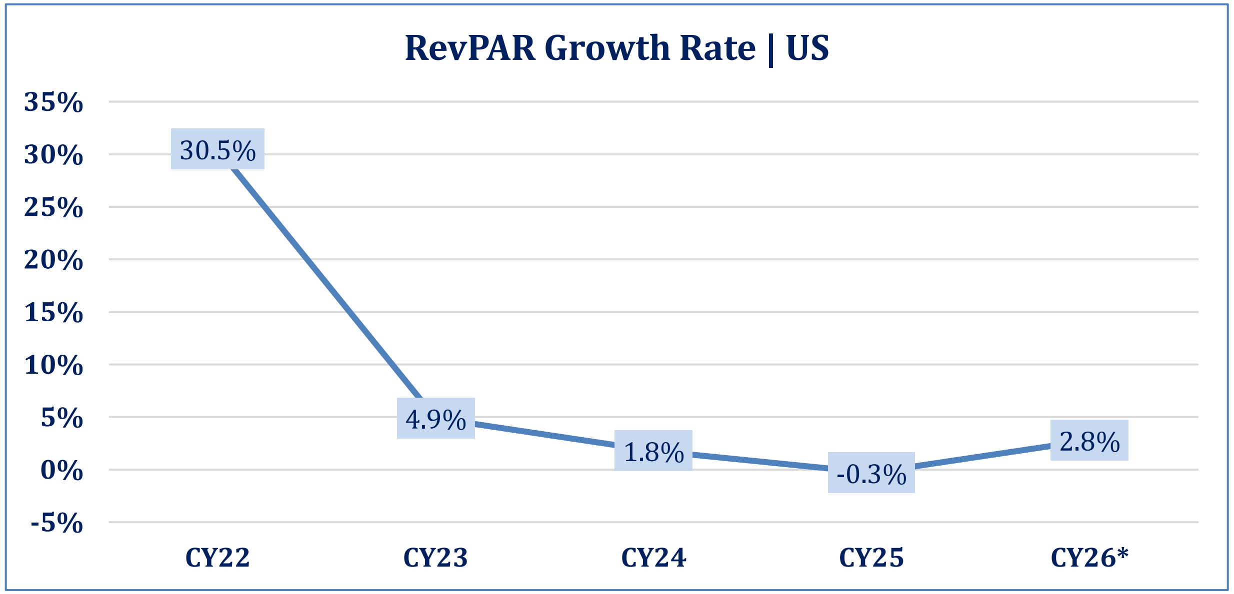
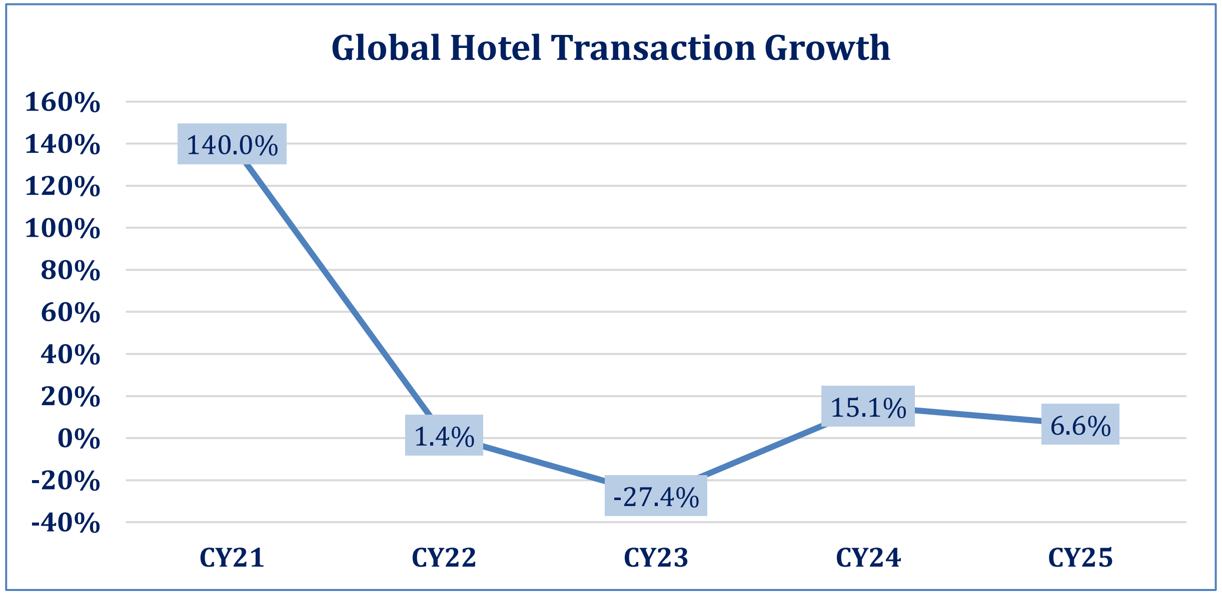
Global | Overview

- As the world's largest and rapidly growing hotel market, the US experiences highly predictable supply growth. US RevPAR fluctuations directly capture real shifts in consumer and corporate travel demand that makes the metric a highly reliable economic indicator, unlike emerging markets where constant new hotel construction distorts performance data.
- The U.S. hotel industry kicked off CY26 with record-breaking momentum, upgrading the year's RevPAR growth forecast to ~2.8%. Even though the industry is generating record revenues, it is still clouded by deep uncertainties, including macroeconomic pressures, rising operational costs, and global instability.
- In CY25, US acted as the primary engine of global transaction growth, experiencing a powerful ~27% surge in transaction volume, driven by high-performing luxury assets and larger transaction sizes. In contrast, the Europe, Middle East, and Africa (EMEA) region recorded a much more modest but stable increase of ~4% in the overall share. Meanwhile, Asia Pacific (APAC) stood out as the only region to experience a decline, with transaction volumes falling by ~20% in CY25. However, a recovery is expected for the Asian market in CY26, driven by intense institutional interest in key markets such as Japan.





Note: *RevPAR growth (Revenue Per Available Room growth) tracks the percentage change in the revenue a hotel or rental property generates per available room over a specific period. *RevPAR for CY26 is projected*

Source: STR, JLL Hotels & Hospitality

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Global | Key Takeaways

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The Tourism Index is likely to stay Neutral in CY26, falling short of the original ~4% growth forecast.

- Global hotel transaction volumes rose ~6.6% in CY25, with hotels' share of overall commercial real estate investment volumes back to ~8%, slightly higher than the long-term average of ~7% and marking a recovery from pandemic-era lows.
- Global international tourist arrivals surpassed pre-pandemic levels in CY25, though performance was uneven by region. Middle East/Africa, Europe and the Americas exceeded 2019 levels while Asia Pacific still trailed by ~9%.
- US saw a minimal growth of ~1% in international arrivals, weighed down by weaker U.S. inbound travel, especially from Canada in the second half of CY25.
- Global air passenger traffic is forecast to grow to ~4.9% in CY26, decelerating slightly from CY25 but consistent with long-run averages. APAC leads at ~7.3% growth on the back of India, China and Vietnam, while North America grows a slower ~1.5%.
- Large events are a material CY26 tailwind for the U.S with the FIFA World Cup are expected to lift lodging demand in host cities such as Boston, Washington D.C. and other cities. Average RevPAR boosts of ~2.8% above baseline national growth is expected, and even higher in smaller host markets.
- As for CY26 international tourism is set for slower growth, with the Confidence Index score decreasing from ~117 in 1QCY26 to ~105 in the 2QCY26 as the Middle East conflict weighs on demand for nearly two-thirds of destinations.
- US recorded ~2% more international arrivals in 1QCY26. In the Middle East arrivals dropped ~14% in Q1CY26, impacted by the conflict.
- UN Tourism has trimmed its CY26 growth forecast by 1–2% points from the original 3–4% range, citing the Middle East conflict's uncertain duration and reach.

Source: STR, CBRE, WTTC, IHG, Bowo, Hilton.com

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Local | Overview

- In FY26, Pakistan's GDP (nominal) stood at PKR~126.9Tn, increasing ~11.3% YoY (FY25: ~8.3% growth). Industrial activities during the year held ~18.1% share in the GDP, while services made up ~58.4%.
- Pakistan's Accommodation and Food Services Sector represents ~2.6% of the Services Segment, making it the smallest sub-category within the segment. Furthermore, it represents a mere ~1.6% of the total national GDP, ranking it among the smallest contributors across the entire formal economy alongside fishing and forestry.
- Despite Pakistan's rich tourism potential across cultural, adventure, and religious circuits, the Hotel and Lodging Sector remains one of the smallest formal contributors to national output, reflecting an underdeveloped, largely domestic-demand-driven hospitality base rather than a lack of visitor appeal.

Pakistan Economy | FY26

Agriculture (23.5%)
- Crops (34.0%)
- Livestock & Others (66.0%)

Industrial (18.1%)
- Manufacturing (66.9%)
- Mining & Quarrying (7.7%)
- Electricity, Gas and Water Supply (12.5%)
- Construction (12.9%)

Services (58.4%)
- Wholesale Retail & Trade (30.5%)
- Transportation & Storage (17.7%)
- Others (50.3%)
- **Accommodation and Food Services Activities (3.0%)**

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Local | Overview

- Karachi is the most expensive city as per the average room rent of PKR~40,200. As Pakistan's largest commercial and financial hub, drawing sustained corporate/business travel demand that isn't seasonal. Presence of 5-star business hotels (PC Karachi, Movenpick, Avari Towers, Marriott) for corporate clients boosts the city's market average above regions with a smaller luxury tier.

- Islamabad sits close behind at PKR ~36,800, driven almost entirely by government, diplomatic, and multilateral demand, embassies, ministries, and international organizations. Unlike leisure pricing, Islamabad's higher corporate rates and smaller hotel supply support higher average room rates in the city. Islamabad’s hospitality sector is expanding with major upcoming international hotel launches, featuring prominent brands like Courtyard by Marriott, Residence Inn by Marriott, and Radisson Blu.

- Lahore's larger, more fragmented hotel supply, intensifies competition across price tiers, which keeps average rates comparatively lower. Even Lahore's flagship 5-star (PC Lahore) prices are well below its Karachi and Islamabad counterparts, suggesting citywide competitive pressure rather than just a supply-mix effect. Lahore's hotel market appears to compete more directly on price even at the top end.

Particulars	FY24	FY25	FY26
Contribution to Real GDP (%)	1.5%	1.6%	1.6%
Hotels with ≥ 500 Rooms (No.)	6	6	7
Top 5 Players (on the basis of number of rooms)	Pearl Continental, Serena, Hotel One, Avari, Movenpick		
Average Room Rent of Top 10 largest hotels (Jul’25)	Lahore: PKR ~28,600 Karachi: PKR ~40,200 Islamabad: PKR ~36,800		
Structure	Oligopoly		
Government Agencies	Pakistan Tourism and Development Corporation (**PTDC**), Trade Development Authority of Pakistan (**TDAP**)		
Association	Pakistan Hotels Association (**PHA**)		

Note: *Contribution to Real GDP is representative of “Accommodation & Food Services” share in GDP.*

Source: WTTC, UNWTO, WEF, Company Websites, PBS, SBP

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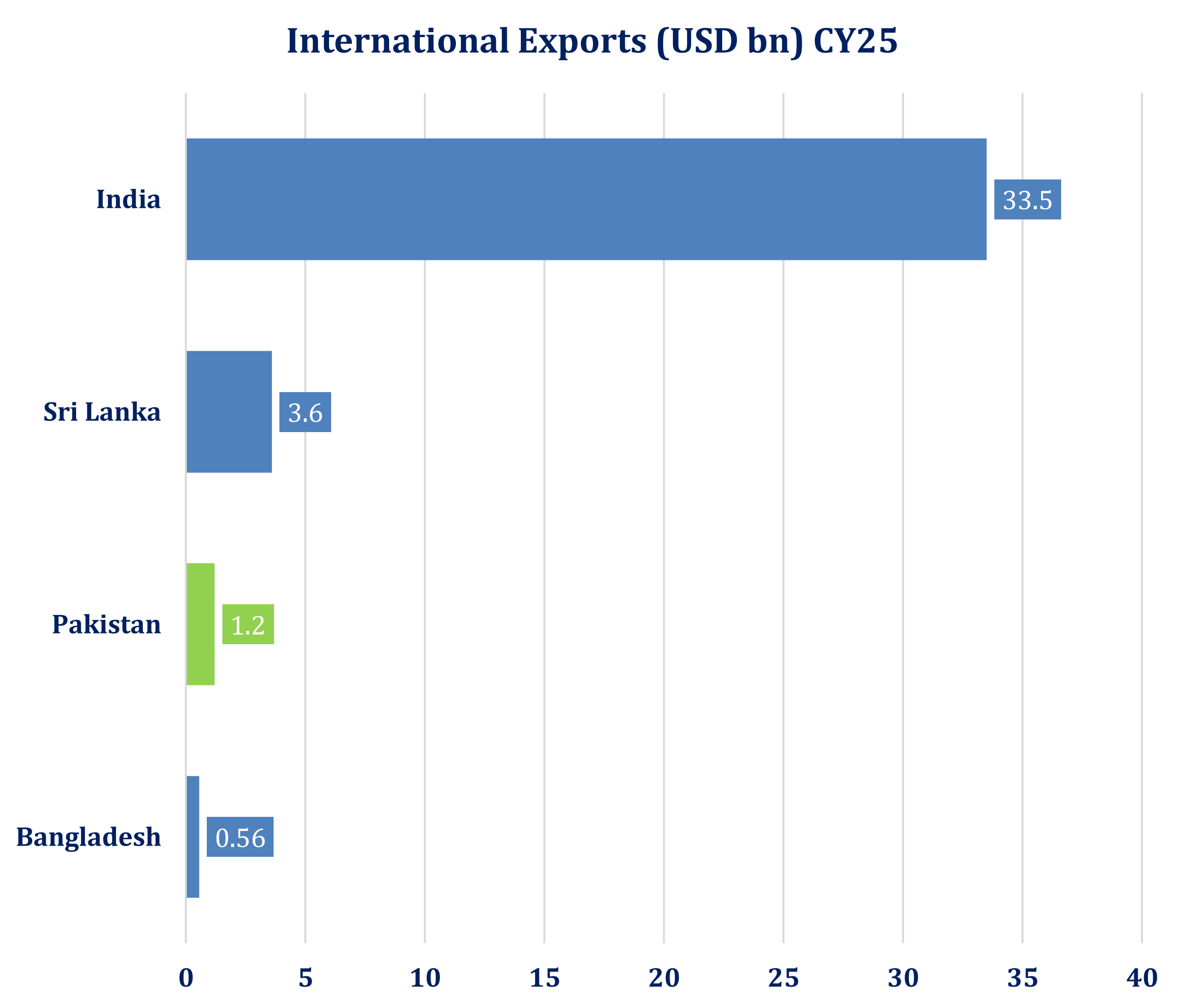
Regional | Tourism Export Earnings | Pakistan vs. South Asian Economies

- Pakistan's international tourism export earnings of USD ~1.2bn in CY25 remains a fraction of India's USD ~33.5bn and Sri Lanka's ~USD3.6bn, reflecting a still-underdeveloped inbound tourism base relative to regional peers.

- This gap has direct implications for the formal hotel Sector, unlike India and Sri Lanka, where foreign leisure/business travel underpins occupancy at branded and chain-affiliated properties. Pakistan's hotel demand remains predominantly domestic-driven with weddings, conferences and internal business travel rather than forex-earning international arrivals.

- The retail linkage follows a similar pattern in India and Sri Lanka, tourists spend flows into organized retail channels, duty-free, curated handicraft retail, mall-based luxury and F&B creating a forex-earning retail segment. Pakistan's organized retail Sector relies overwhelmingly on domestic discretionary spending, with minimal contribution from international travelers. This stems from weak inbound tourist volumes and underdeveloped retail infrastructure at key destination circuits (Northern Areas, Lahore, Karachi).



Source: UN tourism

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Local | Supply

- Pearl Continental remains the Sector's clear leader with ~1,630 rooms across 13 branches, followed by Serena (~1,085 rooms, 10 branches) and Avari Hotels (~1,072 rooms, 11 branches). Together, the top three players account for a significant share of total room supply among the Sector's ten key players, though branch count doesn't always track room count. Hotel One, for instance, operates the most branches on a smaller, standardized room base, reflecting its economy-tier positioning.

- The Sector continued to expand in FY26 as established chains added branches in new cities. Movenpick opened its Centaurus, Islamabad branch while Hotel One extended its footprint with a new branch in Gujranwala in Apr'26, taking its portfolio past 20 properties across 15+ cities nationally.

- Global hospitality brands are entering Pakistan through franchise or management tie-ups with local real-estate developers, rather than direct ownership. Swiss International Hotels & Resorts entered the local mid-scale segment with Swiss Spirit Fortress Stadium, Lahore (a refurbishment of the former Silver Mall), expected to open in CY26.

- Luxury chains continue to collaborate with economy-class hotels on shared-facility models, broadening the range of packages available to different income groups. Pearl Continental has opened PC Attabad Lake, Hunza in partnership with Road & Story in FY26 thus extending the luxury tier into scenic tourism destinations. Nishat Hotels similarly expanded its footprint by acquiring Hotel Margalla, Islamabad in FY25.

10 KEY MARKET PLAYERS – PAKISTAN (FY26)

Hotel	No. of Rooms*	Operational in Cities (No.)	No. of Properties
Pearl Continental	1,630	10	13
Serena	1,085	10	10
Avari Hotels	1072	9	11
Hotel One	810	16	23
Movenpick	787	2	2
Ramada by Wyndham	703	6	7
Marriott	505	3	3
Best Western	464	8	8
Nishat	295	1	2
Roomy	200+	8	12
Total	**7,551**	**73**	**91**

**Owner of Pearl Continental Hotels & Resorts is Hashoo Group*
Note: Number of rooms are based on PACRA estimates .

Source: Company Websites, Hotels.com, Booking.com

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Local | Demand

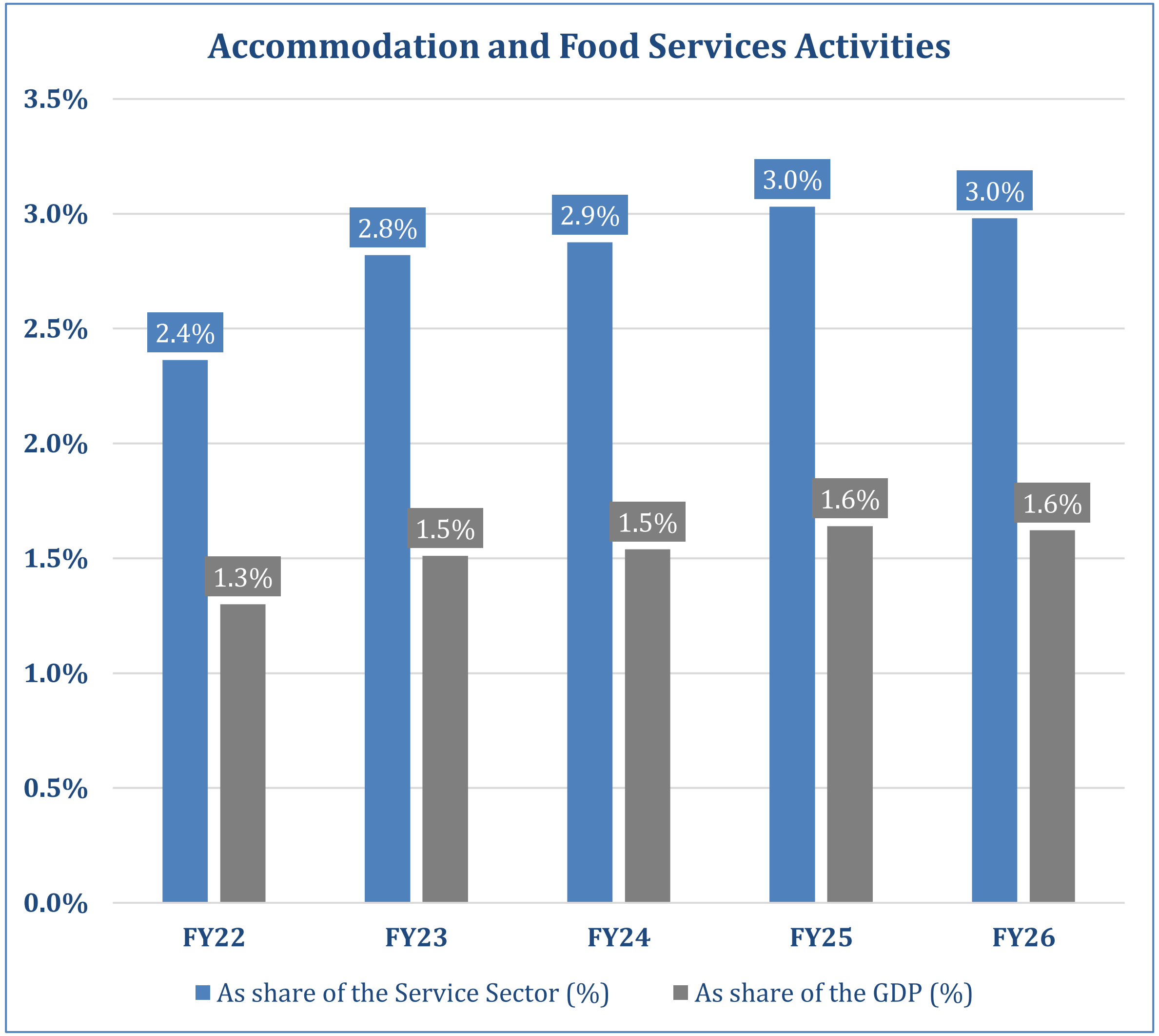
- The Hotel and Lodging Sector caters to a fundamental need for visitors lacking family or accommodation in the area, making it central to Pakistan's tourism value chain.

- In FY26, the Sector's share of the broader Services segment remained stable to ~3.0%. Concurrently, its contribution to total GDP remained at ~1.6%, The stabilization of these shares suggest the Sector's stabilized rate has aligned with, rather than exceeded, the growth trajectories of both the services segment and the national economy.

- Growth was underpinned by rising private investment in the Sector consistent with hotel capacity additions such as PC Legacy Skardu (opened Dec'24) and the Radisson Hotel Group's Murree pipeline scheduled for CY26.

- The main driver for tourism in Pakistan remains developments in the Northern areas such as Hunza, Skardu, and Gilgit Baltistan, where expansion of international hotel chains continues to attract inbound tourism.

- Pakistan's Accommodation & Food Services sector is targeted to grow ~3.2% in FY27. This makes it one of the few Services sub-sectors targeted to accelerate at a slower pace even as overall Services growth is projected to rise to ~4.2%.



Source: SBP, UNWTO, PBS

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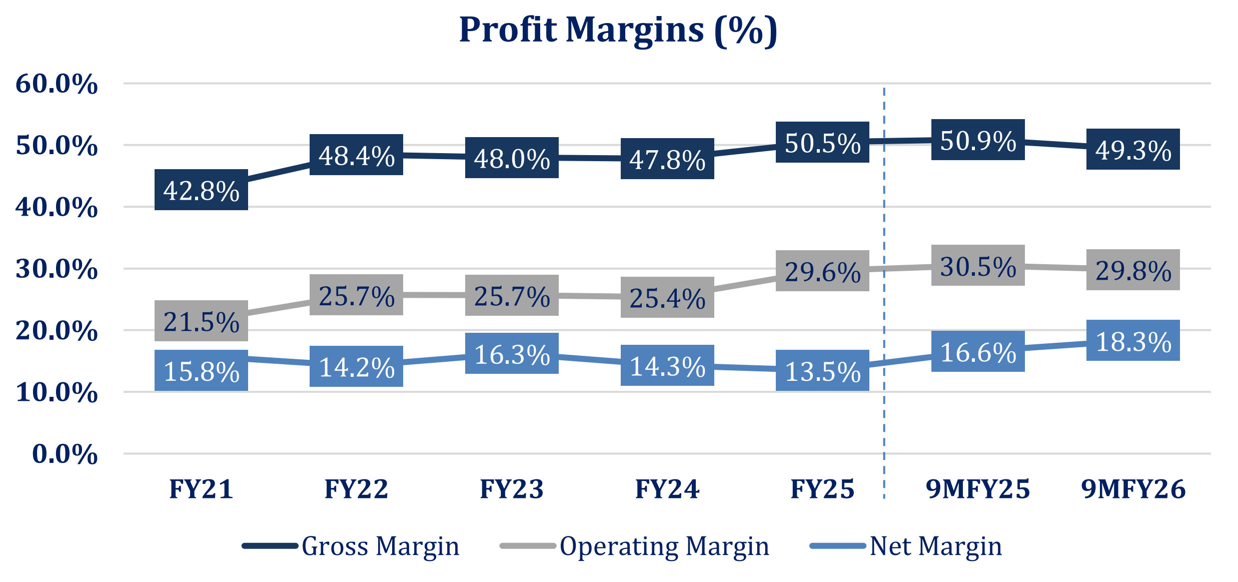
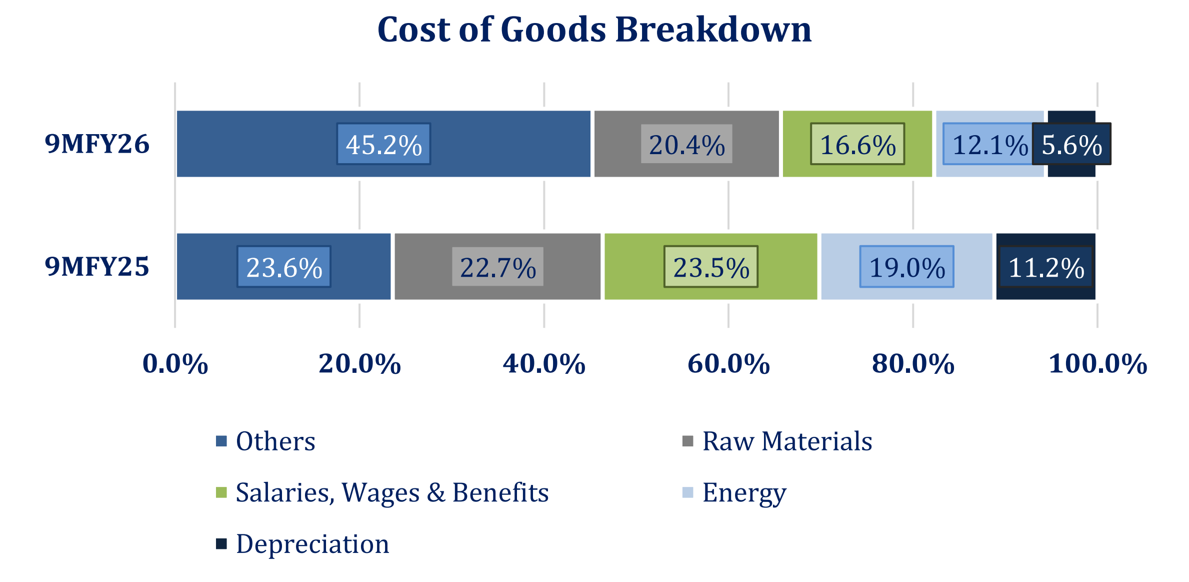
Business Risk | Margins & Cost Breakup

- The Sector's revenue is primarily based on domestic and international tourists as well as business travel. Luxury hotels mostly cater to foreign tourists, business travelers, and the country's elite, while mid-scale/economy-class hotels are more focused on domestic tourists.
- Gross margin eased to ~49.3% (~50.9% in 9MFY25), as COGS growth (~11.2%) outpaced sales growth (~7.2%), pointing to elevated input cost pressures across utilities, F&B, and staffing. The Sector's improved net profitability in 9MFY26 was driven by lower interest expenses rather than stronger core operations. As margins remain under pressure from rising input costs, maintaining these net margin gains will depend on financing cost and cost control measures.
- In FY25, gross margin improved to ~50.5% as sales growth (~8.2%), driven by the opening of new hotel properties, outpaced the rise in cost of goods sold (~2.6%). This translated into stronger operating margins as well, rising to ~29.6% in FY25, supported by minimal growth in operating expenses.
- COGS growth in 9MFY26 was concentrated in "Others" (~45.2% share), including but not limited to communication, repair and maintenance, meanwhile Salaries, Energy, and Depreciation declined in both absolute terms and share. This shift indicates the cost pressure was driven by operational expenses rather than the Sector's core input categories.





Note: Calculations are based on PACRA-rated clients
Raw materials for a hotel include but are not limited to food and beverage supplies, linens, toiletries, utilities.

Source: PACRA Database, Companies Financials

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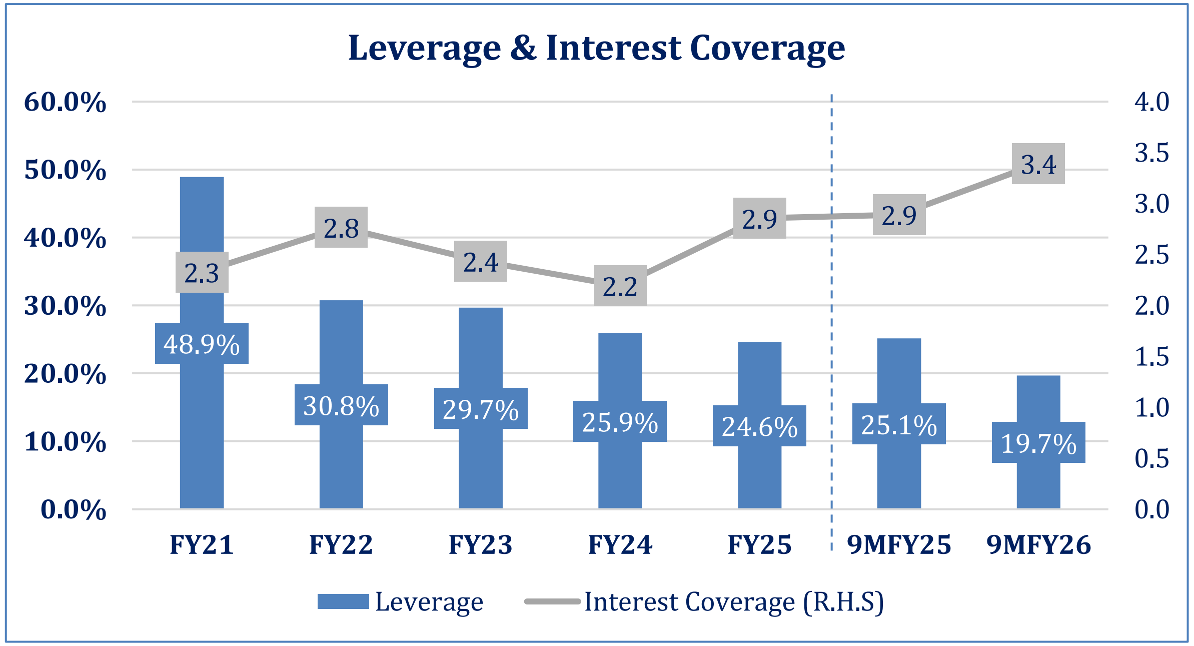
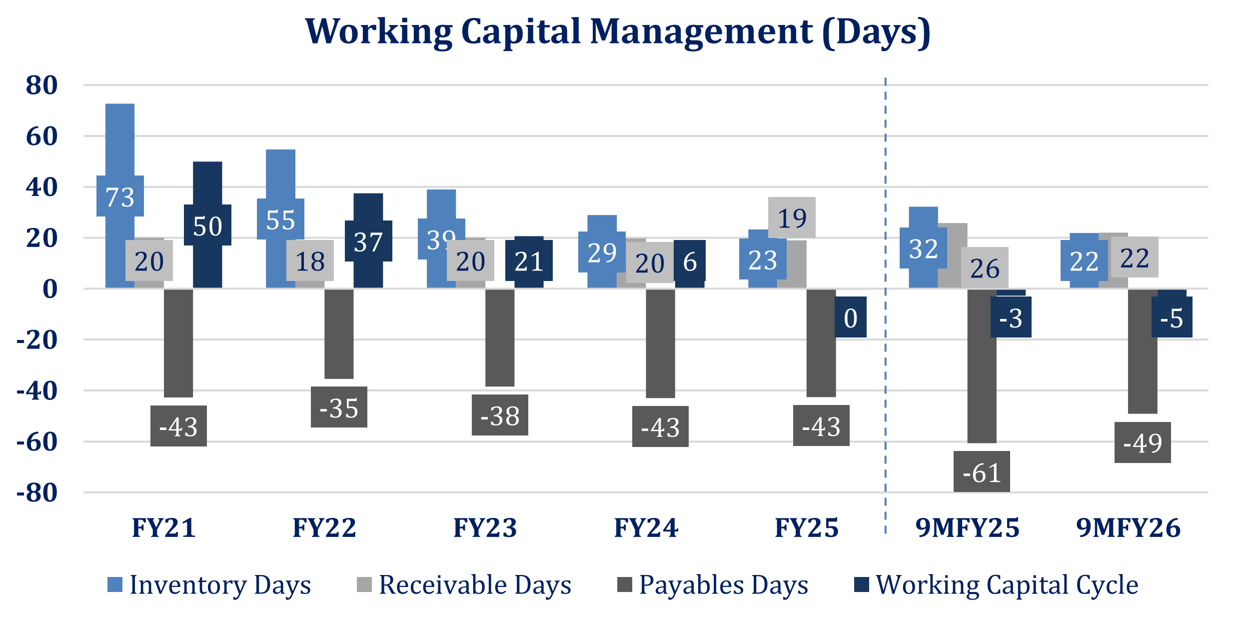
Financial Risk | Leverage & Working Capital Management

- The Sector's working capital cycle remained negative in 9MFY26 reflecting favorable working capital. Payable days consistently exceeded the combined inventory and receivable days. Payable days fell to ~49 days in 9MFY26 (SPLY: ~61 days). This trend aligns with the Sector’s deleveraging trajectory, as leverage declined to ~19.7% in 9MFY26 from ~25.1% in 9MFY25, with a widening negative working capital cycle correspondingly reducing the need for short-term borrowings.
- The Sector’s inventory days have significantly compressed to a low level of ~22 days in 9MFY26, primarily representing food & beverage (F&B) and operational consumables that are regularly utilized throughout the cycle. The hotel industry typically operates on a negative working capital cycle. Guests settle their bills upon service, which keeps accounts receivable very low. In contrast, hotels pay their suppliers for food, utilities, and operating supplies on extended credit. This setup is standard across the hospitality sector.
- Interest coverage of the Sector improved to ~3.4x in 9MFY26 from ~2.9x in 9MFY25. The improvement in debt-servicing capacity is primarily attributable to the ~5.4% YoY growth in the Hotel Sector's operating profit during 9MFY26, supported by high sales and low finance cost.





Note: Calculations based on PACRA-rated clients.

Source: PACRA Database, Companies Financials

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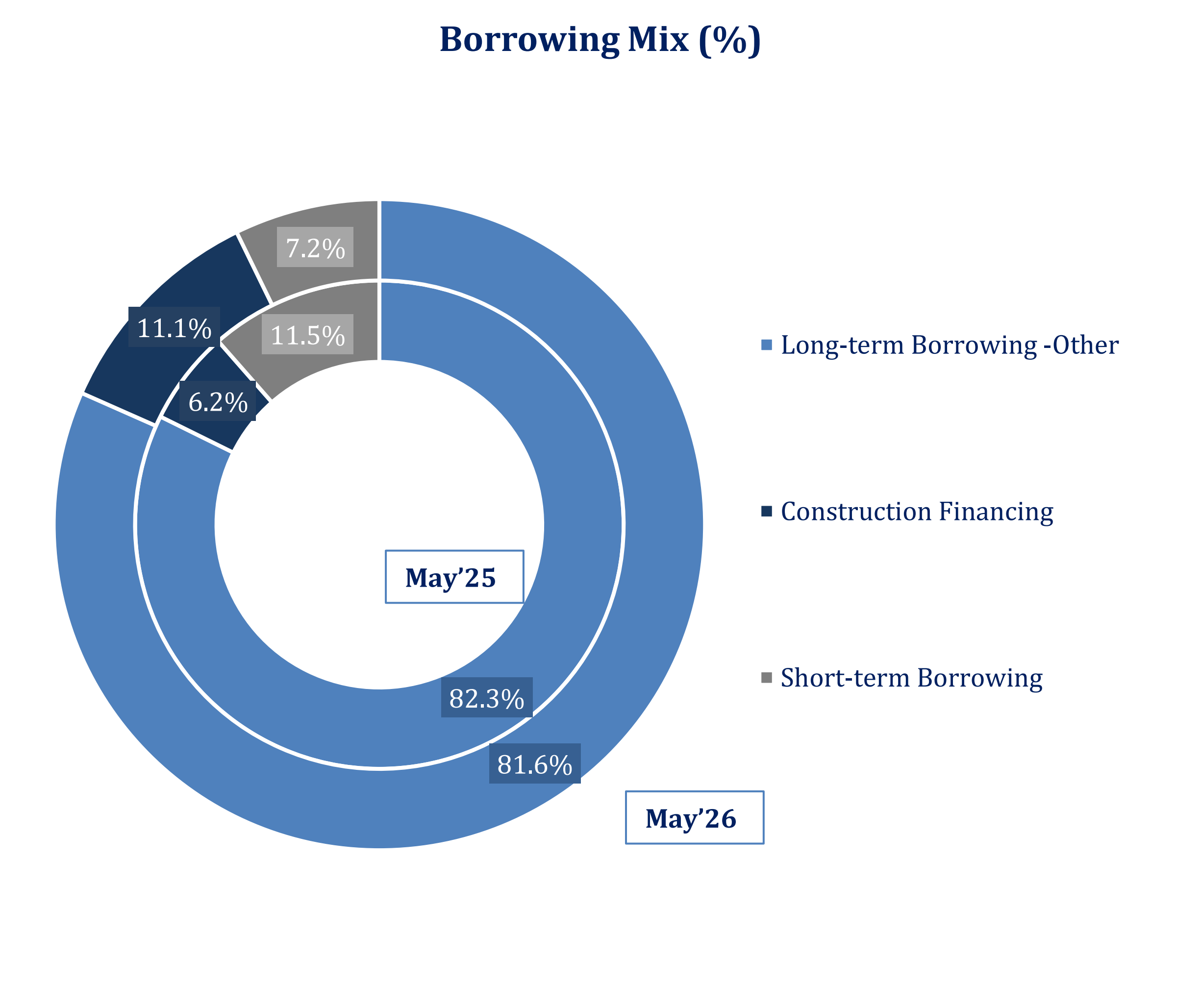
Financial Risk | Borrowing Mix

- The Sector's total borrowings increased by ~7.5% YoY to ~PKR 66.9bn in May'26 (May'25: ~PKR 62.2bn), with the mix shifting toward short-term financing. Short-term borrowing grew by ~92.3% YoY to ~PKR 7,456mn, raising its share of the total borrowing mix to ~11.1% in May'26 from ~6.2% in May'25. This indicates comparatively greater reliance on short-term funding, potentially for working capital needs.

- Long-term borrowing for construction financing declined by ~32.3% YoY to ~PKR 4.8bn, likely reflecting the progression or completion of underlying construction/capex projects, while other long-term borrowing grew moderately by ~6.6% YoY to ~PKR 54.6bn.

- Despite the sharp increase in short-term borrowing, long-term borrowing (other) continued to dominate the mix, accounting for ~81.6% of total borrowings in May'26 (May'25: ~82.3%), suggesting the Sector's overall funding structure remains long-term in orientation.

- As the borrowing mix shows an increase in overall sector borrowings, this trend is reflective of the sector at large and does not fully represent the borrowings of PACRA-rated entities.



Note: Data represents SBP classification of “Short-term Accommodation Activities”.

Source: SBP

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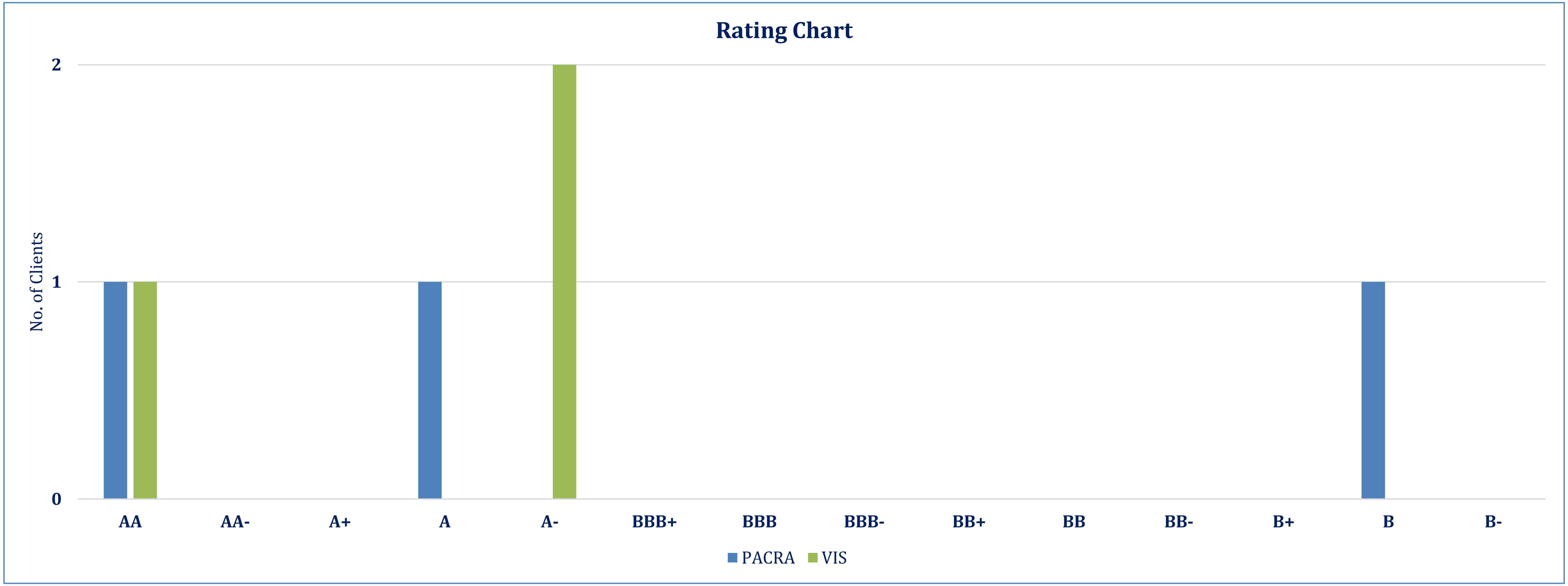
Rating Chart

- PACRA rates 3 entities in the Hotel and Lodging Sector. Rating bandwidth of the Sector ranges from AA to B.



Source: PACRA Database

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Outlook: Stable

- In FY26, Pakistan’s nominal GDP grew ~11.3% YoY to PKR ~126.9Tn, with the services Sector driving the largest share at ~58.4% compared to industry's ~18.1%.Within this economic landscape, the Accommodation and Food Services sub-Sector remains one of the smallest formal contributors, representing ~3.0% of services and just ~1.6% of total national GDP.
- Room supply continues to expand through established players (Movenpick Centaurus, Hotel One Gujranwala, Swiss Spirit Fortress Stadium Lahore, PC Attabad Lake Hunza), with luxury operators extending into the budget segment to broaden the revenue base amid elevated inflation.
- 9MFY26 profitability was underpinned largely by a ~32.5% decline in financing costs rather than core operating improvement, as gross margins eased on rising utility, F&B and staffing costs; sustaining net margin gains hereon will hinge on the interest rate trajectory.
- New hotels are opening in Islamabad, Gujranwala (Hotel One), Lahore (Swiss Spirit Fortress Stadium), and Hunza (PC Attabad Lake). Luxury operators are deliberately moving into cheaper hotel tiers to grow revenue as inflation stays high. Hashoo Group's PC Hospitality is doing the same: it has signed PC Legacy Hyderabad, the city's first branded 4-star hotel, with partner Global Palace. This new tier sits between its 5-star Pearl-Continental hotels and its 3-star Hotel One chain, following earlier PC Legacy hotels in Hunza and Skardu. Entering an urban Sindh market also helps the group spread its hotel pipeline beyond the Northern Areas.
- Government policy is sending mixed signals. Since Jan'26, the free Visa-on-Arrival scheme has been suspended and replaced with a paid e-Visa, which is a near-term drag on foreign arrivals. On the positive side, provincial tourism zones and PTDC's new branding push could help demand over the medium term. Meanwhile, private investment keeps growing, PC Legacy Hyderabad and PC Attabad Lake's May'26 opening in Hunza show operators remain confident. This confirms Pearl-Continental's lead position and Hashoo Group's dominance in Pakistan's growing nature-based, experience-focused hotel segment.
- Climate change is a growing risk for the Sector, especially since so much demand and new supply is concentrated in the Northern Areas. Glacial lake floods, landslides, and extreme weather can block roads, damage hotels, and reduce occupancy in mountain destinations like Hunza, Skardu, and Gilgit-Baltistan. More broadly, unpredictable monsoons and heatwaves can shift the timing of domestic leisure travel. Globally too, climate events remain a known risk for the hotel industry, alongside geopolitics and fuel prices.

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