Forecasters expect US hotel performance will get worse before it gets better

US hotels show drop in group demand, international travel

STR President Amanda Hite presents at the Hotel Data Conference. (CoStar)

By Natalie Harms
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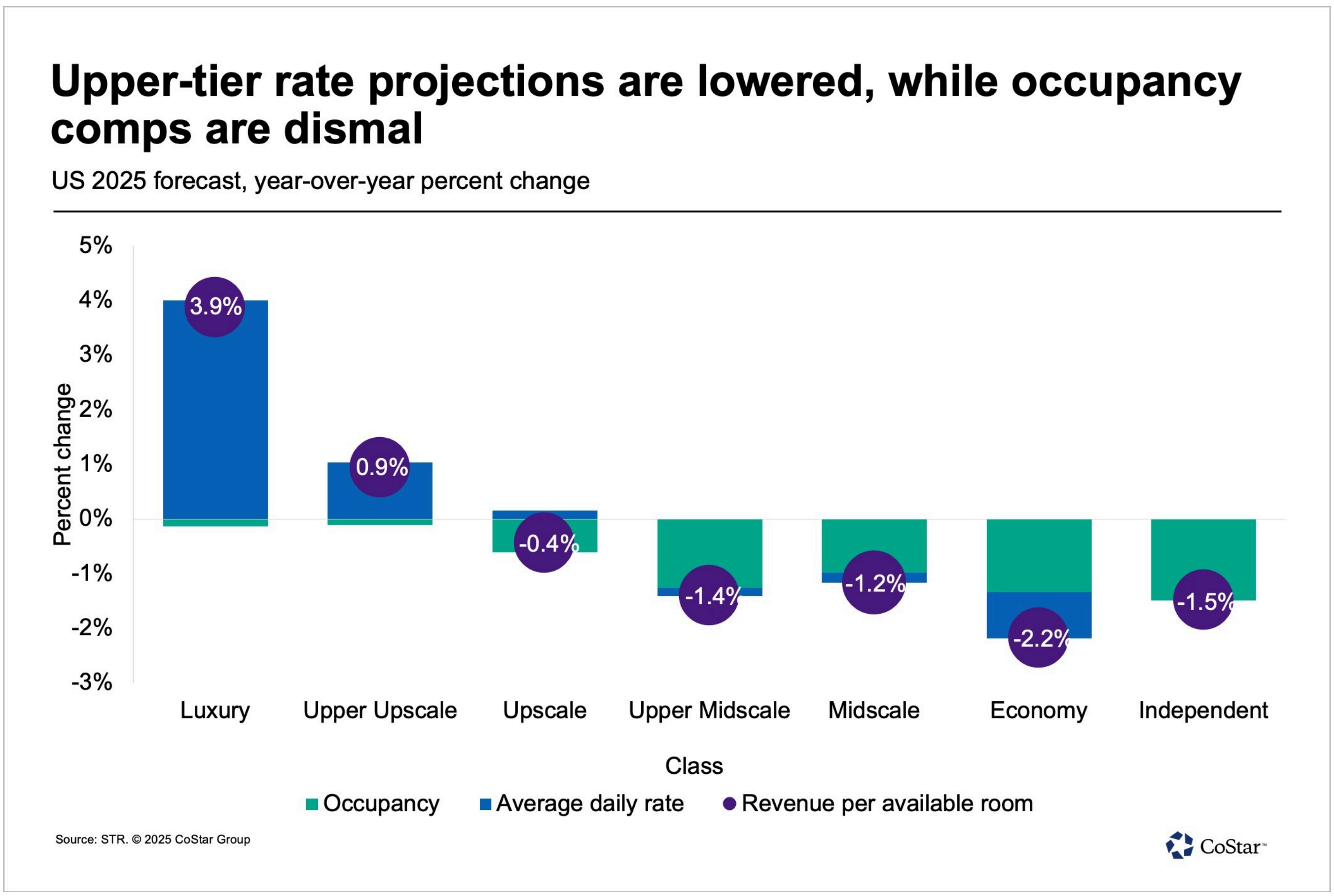
NASHVILLE, Tennessee — It's time for the hotel and travel industries to "face the music" as they are in for a bumpy ride.

The 17th annual Hotel Data Conference kicked off in Nashville with that general sentiment — paired with the announcement of CoStar's downgraded outlook for the year. Now, CoStar is predicting a 0.1% year-over-year decline in U.S. hotel revenue per available room for 2025. Demand is also expected to be a decline of 0.1% for full-year 2025, with both supply and average daily rate up 0.8% and occupancy at 62.5%.

STR President Amanda Hite, who presented CoStar's altered hotel forecast at the conference, took a closer look at expectations for each chain scale, as well as for the first half of 2025 compared to the second. Upper-upscale and luxury hotels are the only two chain scales expected to see growth for the year. The expectation is that it will get worse before it'll get better, Hite said.



"I'm sorry to say, we've seen the best this year," Hite said. "The second half of the year is going to be tough. The next six months are really going to be rocky and probably not feel so great, because we saw the bulk of our growth in the first half of the year, unless you're a luxury hotel."

Looking at the full-year 2026 U.S. hotel forecast, Hite said there will be a "slow but steady rebound."

"As we look at the first half in the second half of the year for 2026, the first half is going to be slower. So, it's the second half of the year where we expect to have more growth," she said. "The next six months are really going to be difficult, but we will turn the corner and start to see growth throughout the course of 2026."

Macroeconomic factors take their hit

Adam Sacks, president of Tourism Economics, dove into some of the macroeconomic factors that have influenced the U.S. hotel forecast — beginning first with employment data, which is the worst it's been since the pandemic.

"Right now, we're in a bit of a rough patch. As you may have heard, the jobs numbers were lower than expected — not only for this past month, but for the last three months with revisions, averaging only 35,000 jobs per month," Sacks said. "But in context, this is the weakest job growth that we've had since the pandemic. And, if it were not for the health and social services sectors, employment would have declined over the last three months."

While the employment data can appear bleak, Sacks said it's not always directly linked to how consumers are spending. Unfortunately, that doesn't seem to be the case this time.

"In fact, over the last six months, consumer spending — real consumer spending — has been essentially flat compared to a year ago. [For] historic context, the last time that consumer spending has been flat or declined was during the pandemic. The time before that was during the Great Recession," Sacks said.

The reason for consumer spending being on hold isn't surprising, Sacks said. It's because of the evolving tariff policies from U.S. President Donald Trump. Sacks gave the audience an expected range of how these tariffs will effect consumers, with the current effect being at 18% and worst-case scenario being over 30%. Politics aside, tariffs are "observably" having a huge impact on a range of things, Sacks said.

"They are observably — and will be more so — translated into higher prices," Sacks said. "They have been observably affecting a weaker U.S. dollar, produced stress in the manufacturing sector, caused the Fed to maintain higher interest rates anticipating set of inflation, reduced capital investment businesses, and increased government revenue."

Zooming in on travel

With these macroeconomic factors in mind, Sacks looked at the impact on travel, with the largest effect being on inbound international travelers.

	2022	2023	2024	2025	2026
International	3.0%	1.5%	0.6%	-0.6%	0.3%
Domestic	7.5%	-0.6%	-0.1%	0.5%	0.3%
Total	10.6%	1.0%	0.5%	-0.1%	0.6%

Source: Tourism Economics and CoStar Group

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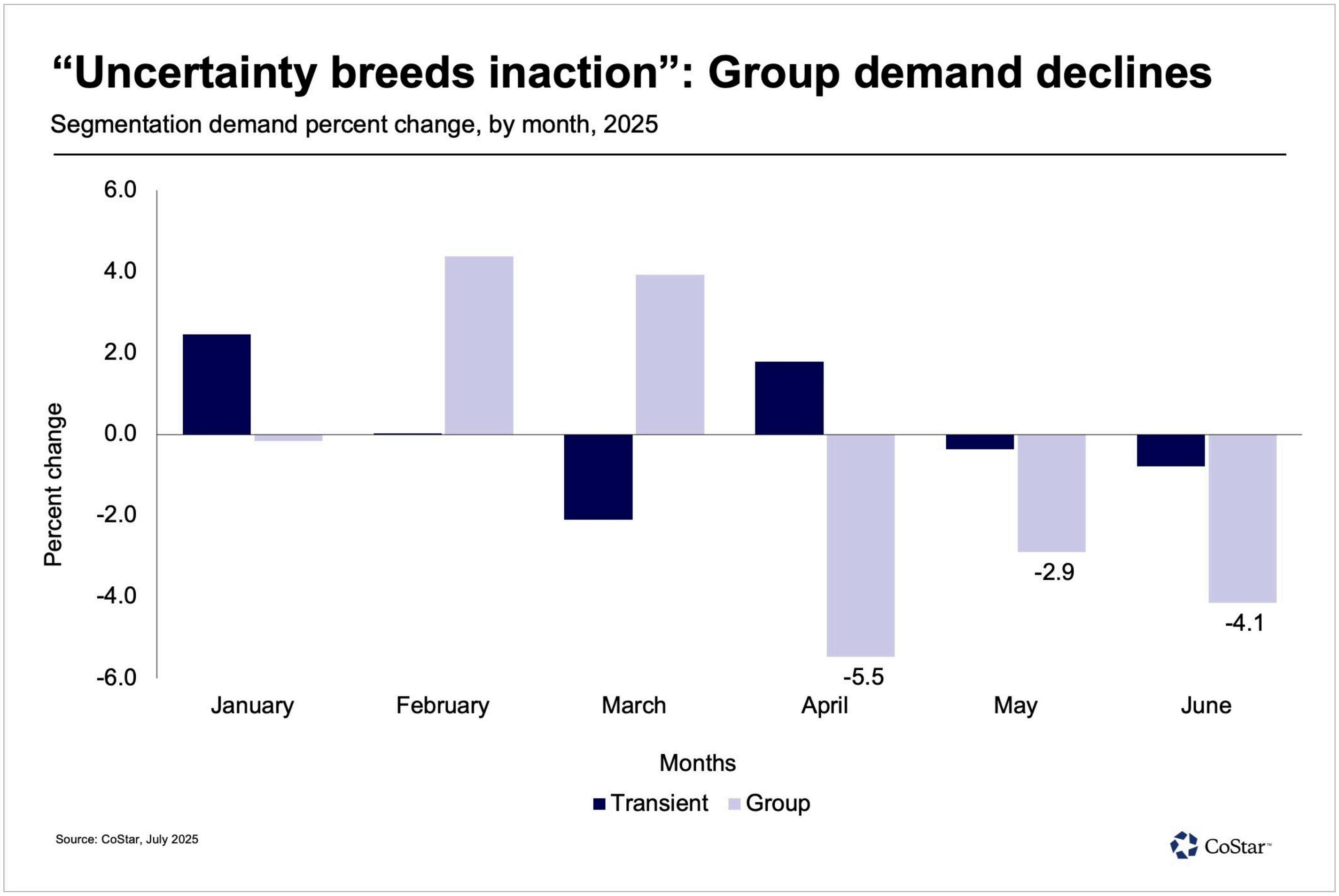
"Indeed international markets are reacting," Sacks said. "Early in the year, we began to call out the risk that divisive policy and rhetoric of the administration would indeed affect sentiment toward the U.S. and therefore travel in the U.S. It's happening, and it's happening nowhere more acutely than in travel from Canada to the U.S., which year to date is down an eye watering 24%."

Amid recent policy announcements that will slash travel marketing budgets and impose new fees on international travelers, Sacks said the U.S. is "not rolling out the welcome mat." International inbound hotel demand to the U.S. is down 0.6% this year, which more than wipes out 0.5% U.S. domestic demand growth.

"The international markets are basically offsetting all the gains in domestic markets," Sacks said.

Jan Freitag, national director for hospitality market analytics at CoStar, echoed many of Sacks' concerns regarding demand and travel activity. Freitag zeroed in on declining U.S. hotel group demand. Wednesday occupancy has been down, pointing to a slow in business travel.



"Group is a question mark, in my opinion," Freitag said.

Freitag also took a closer look at the real estate outlook, including both the transaction market, which is "certainly not breaking any records," thanks in part to a gap between buyer and seller expectations.

"On the pipeline side, we're now at 139,000 rooms in construction," Freitag said, adding that this is the lowest number in 20 quarters. "Rooms that are in construction open, so that number decreases, but rooms that are in final planning do not break ground because it's really hard to get construction financing."

Looking to the future

On the positive side, some of the metrics point to a reduction in outbound travel for the U.S., resulting in an increase in domestic travel, Sacks said. Also, the recent senate bill, known as the "One Big Beautiful Bill," is "quite a pro-growth bill," he added.

According to Tourism Economics data, average hourly earnings have increased 3.9% over the past year, and that should spur spending.

"Fundamentally, income will support continued growth and travel as we move into the next year," Sacks said. "Average hourly earnings grow nearly 4% year over year. Well, if inflation is a 2.5% — and even on the horizon at 3% — we're still going to see real income growth, and that's going to be a backstop on the leisure travel market. It's going to be a backstop on the economy, as well."

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