



COSTAR INSIGHT

## The K-shaped economy drives the US hotel industry

Luxury class hotels outperformed all other hotel classes in 2025



The 215-room 1 Nashville Hotel in Nashville, Tennessee, is a luxury property owned by Host Hotels & Resorts. (CoStar)

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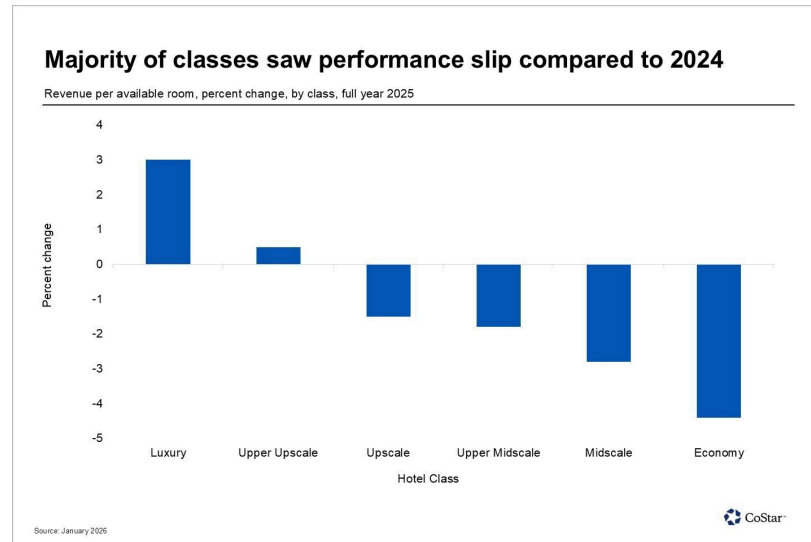
The U.S. hotel industry continued to show a clear performance divide across property classes in 2025.

High-end consumers, still willing to pay for premium experiences, boosted demand at luxury hotels. Revenue per available room, or RevPAR, for the luxury hotel segment rose 3%. In contrast, consumers with less disposable income pulled back on both travel frequency and spending, leading to a 4.4% decline in RevPAR among economy class hotels.

Many economists describe the current U.S. economy as being 'K-shaped,' referring to the spending gap that appears to exist between the two ends of the consumer spectrum. Often, higher-income households have greater exposure to the stock market and own residential real estate, providing additional disposable income that they can spend on high-end experiences.

Lower-income households, however, need to allocate more of their income to necessities as inflation drives up prices. This, in turn, erodes travel budgets for lower-income consumers, putting pressure on more-affordable limited-service properties.

By contrast, luxury hotels have maintained pricing power. Room rates increased by an average of 3% in 2025, even as occupancy held steady at 2024 levels. This underscores the ongoing ability of luxury hotel owners and operators to command higher rates by delivering upscale experiences.



Businesses also spent part of the year absorbing the April tariff announcements, which weighed on many business decisions, including group and transient travel budgets. By December, the U.S. hotel industry had experienced nine consecutive months of declining group room demand and inconsistent midweek performance. Both measures are indicators of weaker corporate travel.

International inbound travel also slowed. Travellers to the U.S. arriving by air declined 4.2% year over year. In addition, some industry participants noted that strong demand for cruises likely diverted some leisure travel away from hotels.

Looking ahead to 2026, we expect the divergence between the high-end and lower-end segments to persist. Our RevPAR outlook for U.S. hotels calls for continued growth in the luxury class, while limited-service properties are unlikely to see RevPAR gains and the economy segment is expected to experience further deceleration.

The FIFA World Cup in June and July should benefit hotel performance in the 11 cities that host matches and boost room rates on and around match days. In addition, the days that holidays happen to fall on this year offer many long weekend opportunities that consumers might use for quick get-aways. However, we expect that these positive travel events will not be enough to overcome an overall subdued year for hotel performance.

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