

COSTAR INSIGHT

Nearly six years after the pandemic, US hotels still struggle to regain lost occupancy

Only 24% of CoStar-defined hotel submarkets post higher occupancy than in 2019



The 25.9% decline in average hotel occupancy for the San Francisco-Market Street submarket is influenced by slower office occupancy, as well as slower convention calendars and ongoing urban headwinds facing the city. (Getty Images)

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December 10, 2025 | 1:36 P.M.

Nearly six years after the pandemic, the recovery in the U.S. hotel industry’s occupancy level remains partial and uneven.

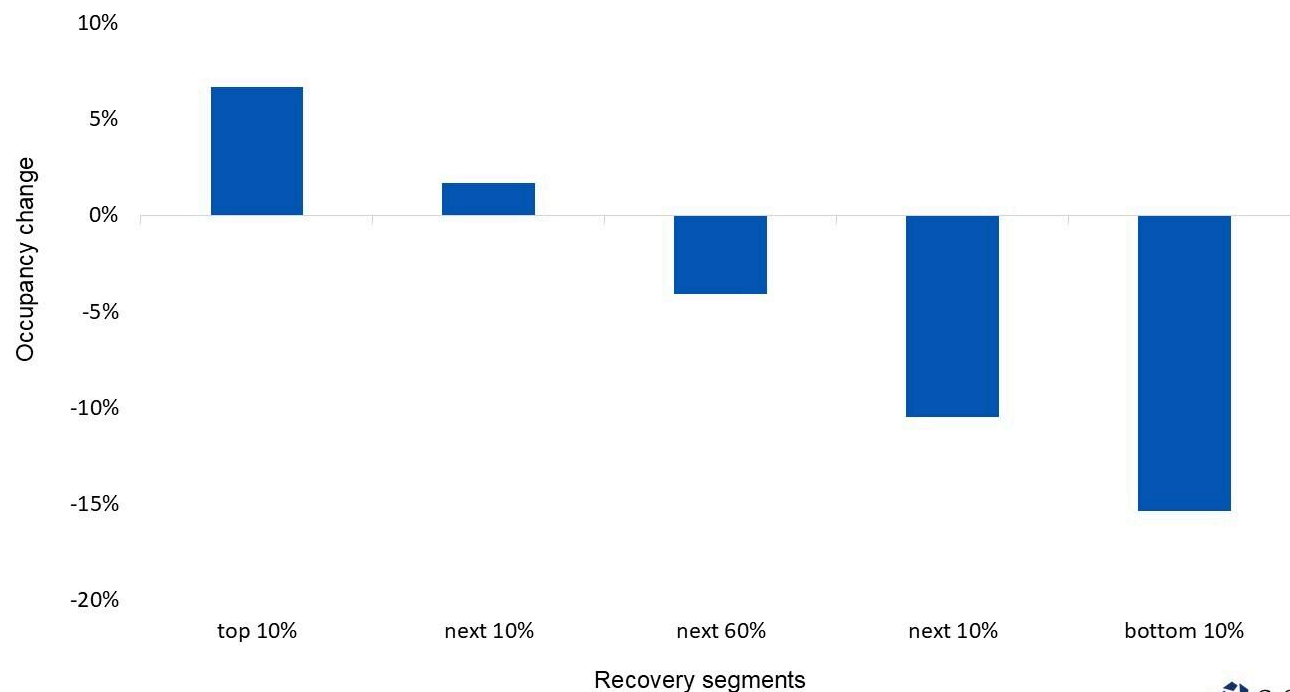
The reasons for this imbalance reflect several structural shifts in demand. First, hybrid work arrangements have reduced midweek corporate travel, particularly to urban cores, thereby diminishing the business travel patterns that downtown hotels rely on. Second, international inbound and long-haul air traffic still lags behind pre-COVID levels in some gateway cities, putting pressure on airport and downtown hotels. Third, a shift toward drive-to trips and dispersed meetings has favored hotels in suburban and secondary markets over traditional city-center venues.

The result is a hotel-occupancy recovery landscape defined less by a single national trend and more by local demand engines and trip purposes. This can be seen in the following analysis of hotel performance by submarket, generally defined as non-

overlapping, contiguous divisions of primary markets that serve to delineate specific areas in which properties are generally accepted to compete with each other for business, in this case, hotel bookings.

Majority of US hotel submarkets still aiming for full occupancy recovery

Occupancy percent change by recovery segment, 12-month moving average, December 2019 to October 2025



Source: Costar, December 2025



Of the 691 U.S. hotel submarkets defined by CoStar, only 168 show a higher 12-month moving average occupancy than in December 2019. The vast majority of hotel submarkets, 523, remain below their pre-pandemic occupancy levels, with an average occupancy decline of 4.2%.

Only the top 10% hotel submarkets achieved meaningful growth in occupancy, increasing by an average of more than 6%. The second-strongest segment of submarkets exhibits much weaker occupancy growth, averaging below 2%. All other hotel submarket recovery segments showed occupancy declines.

In short, the “typical” U.S. hotel submarket has not recovered the occupancy it lost since the pandemic.

The decline in occupancy underscores that hotel demand has yet to fully recover. Downtown and airport hotel submarkets, which traditionally served as anchors of corporate, convention and international travel, are underperforming the most in terms of lost occupancy. Compared to five years ago, the average occupancy decline in downtown areas is 7.3%, and at airports, it is 6.5%. Leisure-oriented hotel submarkets, often buoyed by domestic trips, are closer to full occupancy recovery but still below their prior peaks with an average occupancy loss of 4.2%.

The occupancy divergence by U.S. states is equally sharp. States with the steepest average occupancy declines include Hawaii, (-13.1%), Louisiana (-13.3%), Oregon (-11.5%), Colorado (-10.6%) and Minnesota (-10.2%). Each has its own story behind the occupancy declines: lagging inbound international travel, energy market volatility, varied return-to-office policies, and colder-weather seasonality have all played roles.

Occupancy divides can be observed in the performance of specific hotel submarkets. The 25.9% decline in average occupancy for the San Francisco-Market Street submarket and the 23.7% decline in downtown Portland means that the achieved occupancy remains well below pre-COVID levels, mirroring slower office occupancy in those areas, as well as slower convention calendars and ongoing urban headwinds.

Hotel occupancy in major leisure destinations hasn't fully healed either. The occupancy rate for the Waikiki hotel submarket in Hawaii is 6.7% below 2019 levels, and the Las Vegas Strip trails its 2019 average occupancy by 6.9%, reflecting a mix of international travel recovery gaps, air capacity dynamics, and shifting traveler preferences.

On the flip side, smaller and secondary U.S. hotel submarkets have outperformed. North Carolina's West Central Area, Abilene, Texas, and Valdosta/Lake Park, Georgia, have reported double-digit occupancy gains, demonstrating how drive-to leisure and regional business can more than offset pandemic losses.

Looking ahead, a full recovery of submarket occupancy will take time. CoStar's latest hotel forecast expects another year with flat demand growth and a continued increase in new hotel supply, albeit at a slower pace. The 11 U.S. cities hosting FIFA World Cup soccer events will likely see healthy demand for hotel rooms this summer. Hotel operators in leisure destinations have said they are hoping for spillover room demand before or after the matches. But for the majority of the other U.S. hotel submarkets, demand for rooms is expected to grow very slowly.

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