



COSTAR INSIGHT

# New themes emerge amid uncertain times for hotel buyers and developers

What CoStar's Analytics team is hearing from hospitality professionals



BRE Hotels & Resorts, a Blackstone fund-owned hospitality platform, bought the 292-key Kimpton Hotel Eventi in New York in May for \$175 million. (CoStar)

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New themes are emerging in the hotel transaction landscape, especially amid recent economic uncertainty.

Companies that dabble in both development and investment continue to consider whether to buy or build hotels. Deciding where to construct new hotels is increasingly rooted in market demand studies.

Here is what CoStar Analytics is hearing from industry professionals:

### Hotel transactions split amid narrowing bid-ask spreads

Although [U.S. hotel sales](#) dropped in the first quarter of 2025 compared to the same period in 2024, long-term property holders, such as institutional buyers, remained active in the market for larger hotels, while owner-operators closed many smaller deals.

Institutional investors have access to cheaper debt, enabling them to execute portfolio deals or large single-hotel transactions. Conversely, owner-operators often rely on capital raised from friends and family, making it easier to transact smaller deals.

However, this trend leaves the middle market hungry for the right deal. Industry professionals report that bid-ask gaps are narrowing as sellers lower their pricing expectations to meet the market.

Often, these middle-market hotels, typically with a deal size in the \$20-50 million range, face deteriorating physical conditions that affect their cash flow. The longer owners hold on to these assets, the more pressure they get from hotel brands regarding property renovations and from lenders on maintaining performance thresholds.

Despite the pressure on hotel owners, hospitality professionals say that middle-market transactions remain scarce due to the slim margin of error involved in penciling out successful acquisitions. When needed renovations are involved, buyers must consider the impact of tariffs on furniture, fixtures and equipment, or FF&E, in addition to an already expensive product improvement plan. Also, prospective

buyers report that reduced international travel could negatively impact gateway market hotel performance, a demand shift that was not reflected in most firms' deal underwriting several months ago.

### New trends emerge in hotel ownership

Another recent trend highlighted by market specialists is the scarcity of equity that is ready to commit to hotel investment deals. As more banks are open to new relationships and the availability of debt funds proliferates, the equity side needs more support to get deals done.

Industry veterans point to the difficulty in sourcing capital partners as equity returns associated with hotel deals have declined. The traditional allure of the high-return hotel equity investment model diminishes when other competing investment opportunities with higher potential yields abound.

On the other hand, new entrants into the hotel investment space have become a theme in recent years. Companies in adjacent industries or completely different sectors are attracted to owning hotels due to their cash flow model and potential capital appreciation. Investment sales brokers note that owners of gas stations and car wash facilities, who are already familiar with the franchise model, represent a new wave of hotel owners. In addition, they report that multifamily developers can pivot into the hotel space due to the similarity between the two asset types.

Single demand source no longer enough to justify development  
Historically, hotels near a single demand generator, such as a convention center, a large business complex or an amusement park, would not have to worry about base demand.

Now, hotel developers report that multiple sources of room demand are needed to warrant building a new hotel. More hotel developers have been gravitating toward markets where multiple demand sources exist. For example, a market with both a burgeoning corporate presence and a busy cruise terminal would provide two types of hotel demand: business travelers and vacationers.

The varied demand base ensures hotels can sustain operations should one source stop contributing demand. This was especially evident last year when domestic leisure travel slowed and corporate and group recovery drove hotel room demand.

*CoStar's market analytics team constantly engages with industry experts to look beyond the data to tell the story of the hotel markets in the Southeast. If you would like to share your thoughts anonymously or otherwise, please contact Atlanta-based Senior Director of Hospitality Market Analytics [Chantal Wu](#).*

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