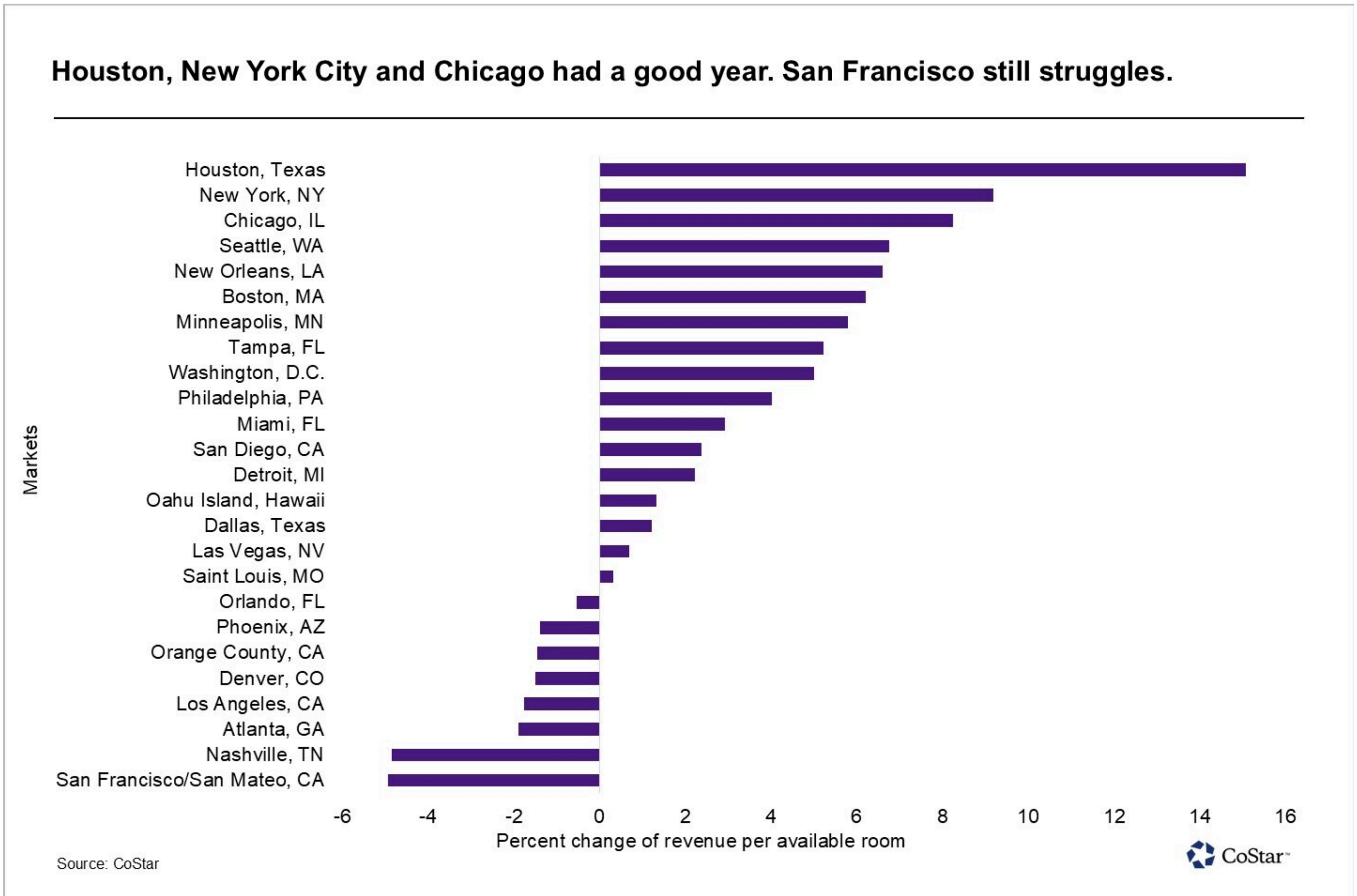
COSTAR INSIGHT

Most large hotel markets were productive in 2024

Continued return of group travelers, healthy corporate demand serve as catalysts



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The 25 largest lodging markets posted varied revenue per available room, or RevPAR, growth in 2024, indicating continued changes in customer behavior.

Some markets with strong demand and rate recovery after 2022 saw RevPAR contraction. Other markets that had shown slower recovery trajectories reported robust RevPAR growth. RevPAR changes varied from 15.1% in Houston to a 4.9% decrease in San Francisco. While each market has slightly different demand drivers, some overarching patterns that drove the 2024 results emerged.

Chicago, Seattle, Boston and Minneapolis were some of the markets that were hit hard by office closures, and their downtown areas did not benefit from year-round leisure travel. Now that many more companies are instituting return-to-office policies, more business travelers have reason to visit these markets and their office towers that used to be sparsely occupied. The expectation is that these markets will continue to increase corporate transient and group demand on weekdays — and that weekend demand, especially in the summer, should support ongoing occupancy growth.

Houston and New York City had the strongest RevPAR growth in the top 25 markets. Houston was hit by two natural disasters: a Derecho in May and Hurricane Beryl in early July. Both events caused displaced people to seek shelter and cleanup crews to occupy hotel rooms for many months. In addition, a strong convention calendar supported downtown demand. Occupancy in 2024 grew by around 8%.

Following the short-term rental ban, New York City recorded healthy average daily rate growth of over 5%. Despite a large pipeline of projects under construction, new supply only grew 0.2%, supporting occupancy growth of over 3%.

However, some markets, especially in southern states, that posted robust leisure and group demand in 2022 and 2023 could not maintain momentum and demand in 2024, and RevPAR declined. Markets such as Orlando, Florida; Phoenix; Atlanta; or Nashville, Tennessee, were all beneficiaries of so-called revenge travel as well as a combination of strong corporate and robust year-round meeting demand.

However, as the strong dollar allowed many American travelers to go abroad, demand in some U.S. resort destinations was impacted. The convention calendar was less robust than before in other markets, and RevPAR suffered. Unfortunately, San Francisco continues to ail from the fallout of sharply decreased office attendance and the knock-on effect of leisure travel and group demand.

Looking ahead, the outlook for the total U.S. RevPAR growth is 1.8% in 2025, but larger markets often outperform the national results. The top 25 market results this year are expected to be robust, supported by group and corporate transient demand. Results from leisure travel could be hampered by a decline in lower-income travelers and a continued outflow of higher-end guests abroad to take advantage of the strong dollar. The expectation is that demand growth should stabilize, leading to limited pricing power.