The factors at play when hotel owners review markets for new projects

Investors weigh buy vs. build, population growth and supply-demand dynamics

The Dallas-Fort Worth-Arlington metropolitan statistical area saw its population grow by more than 700,000 people between April 2020 and July 2024, making it a potentially desirable location for new hotel development. (Getty Images)

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NASHVILLE, Tennessee — The decision where to build a new hotel is just as important as the decision to build itself.

As owners weigh their location options, there are a number of factors take into consideration, including whether it'd be better to buy instead of build, said Chantal Wu, senior director of hospitality market analytics covering the Southeast U.S. region for CoStar, in a the "Chart-Topping Markets For Hotel Development" session at the 2025 Hotel Data Conference.

Hotel owners need to review their acquisition and development options before they make a final decision, Wu said. When buying a hotel, there's obviously the sales price, but there's also likely a renovation cost to bake in. There are also closing costs, typically 2% to 3% of the acquisition cost to cover the title and loan documents.

A development budget will need to include the cost for the land, which is about 10% to 15% of the total price, she said. There are hard costs, namely the construction cost to build the hotel, as well as soft costs for case goods and soft goods to furnish the hotel. Before the hotel opens, there will be some pre-opening and working capital needs, such as buying operating supplies and hiring a director of sales and general manager.

There are several reasons hotel owners choose to buy rather than build a new hotel, she said. There's a scarcity of inexpensive land, especially in international gateway cities. Many cities have complex zoning and entitlement processes, requiring owners to bring in a permitting expert to navigate it all.

Then there's inherent development risks as construction costs are likely to increase over the next several years before the hotel's construction phase begins, she said.

"You probably need to have more contingency baked into your construction budget as a result," she said.

Sales records

Wu said she pulled 6,000 land sales records from CoStar spanning January 2020 through June 2025. For the most part, the top 10 markets for hospitality land sales were concentrated in the top 25 U.S. markets, with Las Vegas topping the list at $580 million. The only non-top 25 market to make the list was Inland Empire in California because it’s relative cheaper there as compared to nearby Los Angeles, San Diego and Orange County.

In terms of acreage, most of the sales were in the Sun Belt markets, with Houston coming in first with 18,392 acres. The next closest is New Orleans with 4,517.

When looking at price per acre, five California markets placed in the top 10 spots, she said. Santa Barbara placed first at nearly $6.9 million per acre, followed by Champaign-Urbana, Illinois, at $5.9 million from two sales. Miami came in third at $5.3 million

Chantal Wu, senior director of hospitality market analytics covering the Southeast U.S. region for CoStar, speaks at the Hotel Data Conference about the market conditions hotel developers consider when planning new projects. (Bryan Wroten)

Hotel sales from January 2023 through June 2025 were also concentrated in the top 25 markets, Wu said. New York topped the list at more than $5 billion in transactions. Miami and Phoenix each had over $2 billion in sales. The rest of the sales ranged from $1.4 billion in Boston to $1.1 billion in Tampa Bay.

When looking at the number of hotel sales, the non-coastal markets recorded the most deals, and Chicago and Atlanta were the only top 25 markets to make the list at 147 and 125 deals respectively, she said. The rest are smaller tertiary markets where the properties were likely less expensive and more attractive to smaller investors.

“In terms of most expensive hotel sales in the past couple years, they're all concentrated in these resort markets like Oahu, Hawaii,” she said. “If you want to buy a hotel there, they cost about $1.1 million per key, which is very, very expensive.”

Supply-demand dynamics

Shrinking supply and increasing demand create an opportunity for potential hotel development, Wu said. From 2019 to 2024, supply growth was not concentrated in the Sun Belt markets, and it did not correlate with jobs or population growth. Nashville, Tennessee, and Austin, Texas, were already hot markets before the pandemic, and they continue to be hot markets, leading new hotel openings for the past five years.

Markets in the Southeast saw the most hotel demand growth during the same period, she said. The demand correlated with population and job growth numbers, and many of these markets have dealt with the impacts of hurricanes over the years, leading to some one-time demand increases.

Savannah, Georgia gained a lot of domestic leisure travel during the pandemic, and its group business is robust enough for the city to expand its convention center, she said. Melbourne, Florida, is part of Florida’s Space Coast, so it sees demand from the aerospace sector as well as a busy cruise terminal in Port Canaveral. Knoxville, Tennessee, benefits from record enrollment at the University of Tennessee.

While hotel occupancy growth correlated with demand growth, higher demand did not correlate with average daily rate growth, Wu said. In fact, in some of the markets with the highest ADR growth, there wasn’t increasing demand.

“You can't really rely on one-time induced demand,” she said. “You really have to have more repeat demand coming in.”

As a result of this, RevPAR growth did not concentrate in the high-demand markets, she said.

“In addition to shrinking supply, in addition to a growing demand, you really have to have room for rate improvement,” she said. “And to be able to achieve that is to be able to provide good guest service so that your clientele comes back, and then you have sticky repeat demand so that you can achieve better rate growth.”

Follow the people

Finding a location to build a hotel hinges on population growth, Wu said. As more people relocate to an area, there are more jobs there, which translates to more travel, either for business or vacations. That, of course, will require more lodging accommodations.

According to the U.S. Census Bureau, population changes come from vital events, namely births and deaths, and net migration, she said. During the pandemic, the markets with the largest population growth were in the Sun Belt region. The Dallas-Fort Worth-Arlington metropolitan statistical area saw its population grow by more than 700,000 people between April 2020 and July 2024, and the Houston-Pasadena-Woodlands MSA had nearly 650,000 during the same period.

"Just overall, Sun Belt MSAs have received so much growth in population because people want to be outdoors, people want to be in warmer clients and the people want less stress, they want work-life balance," she said.

From July 2023 to July 2024, however, large, non-Sun Belt markets also saw population growth, she said. The New York-Newark-Jersey City MSA topped the list with a gain of 213,403 people.

"So even though New York lost a lot of people at the onset of the pandemic, more recently it gained more people because international people actually wanted to relocate to New York," she said.

In terms of percentage changes for population growth, smaller metros saw the most significant changes given their smaller existing population figures, she said. The Wildwood-The Villages MSA in Florida saw its population grow 19% from April 2020 to July 2024, followed by the Myrtle Beach-Conway-North Myrtle Beach MSA in South Carolina and the Lakeland-Winter Haven MSA in Florida at 18% each.

The U.S. Bureau of Labor Statistics data for non-farm payroll growth shows most of the changes were concentrated in the Sun Belt markets from April 2020 to July 2024, with the Dallas-Fort Worth-Arlington MSA coming in the top spot with 474,200 new jobs, Wu said. However, large urban markets have seen a significant jump since the end of the pandemic.

Markets of note

As part of her analysis, Wu said she chose five markets based on the cost of land, the supply/demand dynamics and projected revenue per available room growth.

The Fort Worth-Arlington market is close to Dallas but is not one of the top 25 markets, she said. It saw significant population growth and has a good variety of corporate demand generators. On top of that, the land nearby is not as expensive as near other markets.

Tulsa, Oklahoma, has historically been a hub for the energy sector, and that sector has experienced some resurgence lately, she said. Given the location of the city in the middle of the country, it's a transportation artery as well. Because of that, it has additional diversified manufacturing activity. The land is relatively affordable, and there's muted supply growth.

Orlando, Florida, is the theme park capital of the world, she said. Between Walt Disney World Resort and Universal Orlando, which recently opened Epic Universe, the market has a major draw on people. It's also home to the Orange County Convention Center, the second-largest convention center in the U.S., and it's undergoing an expansion project.

"I also want to highlight the low average construction cost," she said. "So generally, in the South it's cheaper to build a hotel versus the national average just because it's warmer weather you actually have fewer construction delays."

Columbus, Ohio, is the tech hub of the Midwest, Wu said. It has a lot of startups, group demand and robust manufacturing activity, including an electric vehicle battery plant on the way. The market also has muted supply growth.

The Salt Lake City/Ogden, Utah, market has historically been a winter leisure destination, but that has evolved into being the "Silicon Slopes" as more tech companies have located there. The airport is undergoing an expansion project to increase capacity. Supply growth has been limited.

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