COSTAR INSIGHT

# US hotel industry performance slid in 2025, despite healthy economic growth

## Unusual decline in revenue per available room outside of a recession

One bright spot for the U.S. hotel sector is the limited new supply total room supply increased just 0.7% in 2025, while the hotel construction pipeline continues to contract. Shown here, the Tempo by Hilton Washington DC Downtown nears completion. (CoStar)

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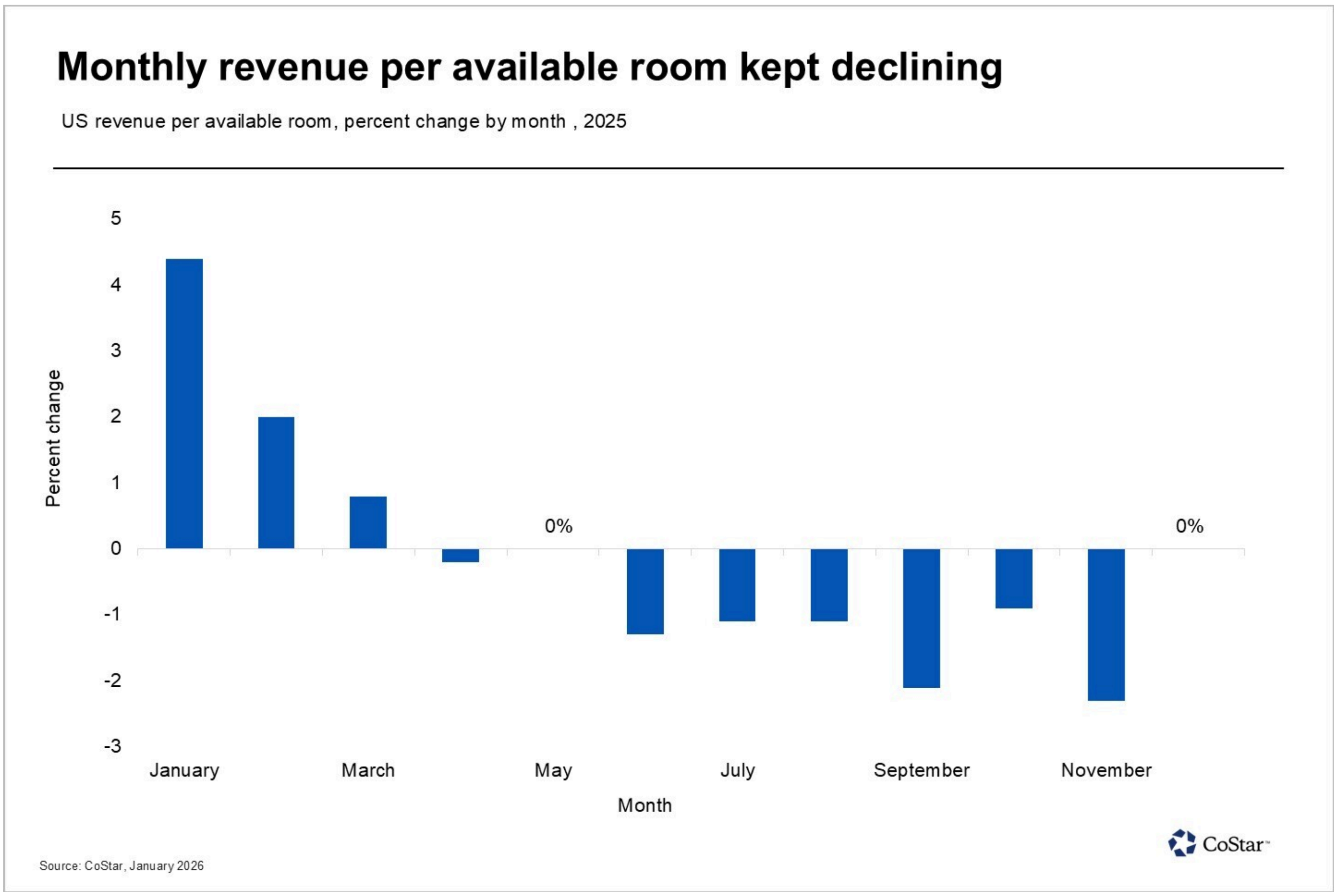
Performance results for the U.S. hotel industry in 2025 fell short of expectations. Revenue per available room, or RevPAR, slipped 0.3%, driven by a 1.2% drop in occupancy as room demand dipped below 2024 levels, an uncommon trend in a non-recessionary environment.

With no occupancy momentum to support higher room prices, hoteliers had limited ability to raise rates, resulting in an increase in average daily rate, or ADR, of just 0.9%, well below the level of inflation.




The outlook for 2026 points to another year of subdued performance for U.S. hotels. A projected 0.6% RevPAR increase reflects persistent occupancy softness and only modest ADR gains. Once again, room rates are expected to lag inflation, so in real terms, the industry continues to lose ground.

Hotel operating margins remain under pressure due to limited pricing power. For the 11 months ending November 2025, gross operating profit and earnings before interest, depreciation and amortization as a percentage of revenue both fell by nearly 100 basis points compared with the prior year. We do not anticipate this trend reversing in 2026, particularly as labor expenses are expected to continue to rise.

Hotel performance by class highlights a clear bifurcation. The macroeconomic environment remains distinctly K-shaped: higher-income consumers continue to spend on experiences, driving a 3% RevPAR increase in luxury properties, entirely on the strength of ADR growth.

Upper Upscale hotels, which are highly dependent on corporate transient and group demand, managed only 0.5% RevPAR growth as a slight decline in average occupancy and muted 1.3% ADR growth limited gains.

All other hotel chain scales registered declines in RevPAR. Economy hotels were hit the hardest, with demand down more than 3%. ADR was down over 2% for economy hotels, and RevPAR fell 4.4%. The performance of economy hotels likely resulted from elevated inflation, which pressured consumer households and reduced discretionary travel.

One ongoing bright spot for the U.S. hotel sector is the limited influx of new supply. Room supply increased just 0.7% for 2025, while the hotel construction pipeline continues to contract. After holding steady between 150,000 and 160,000 rooms under construction for several years since 2019, the pipeline has declined to 136,000 rooms. Hotel developers remain largely focused on limited-service properties, which offer stronger gross operating profit margins.

Looking forward, a healthy economic outlook for the U.S., with economic growth projected above 2%, should support at least some increase in travel demand. The 2026 FIFA World Cup is expected to provide a temporary lift to hotel operating results across the 11 U.S. host cities. Still, the forecast does not point to a significant catalyst that would drive meaningful improvement in overall hotel performance in 2026.



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