Special Edition 2025

Hotel Industry Report: A Year of Uncertainty

Forecasters expect tepid growth this year, although top 25 markets and luxury outperform.

Story by Mark Ray

2025 State of the Industry Report

Our State of the Industry Report last year began with this statement: "The outlook for the hotel industry for the rest of 2024 is, well, complicated."

Well, "complicated" applies even more to 2025. Between tariffs, stock market fluctuations and falling consumer sentiment, it's clear that this year's outlook is not so clear.

"It's certainly a period of uncertainty," said industry forecaster Amanda Hite, President of STR, which provides data benchmarking, analytics and marketplace insights for the global hospitality industry.

She noted that even the calendar has played a role. Easter fell in April instead of March this year, which elongated the spring-break period for leisure travel.

"Most schools take spring break over about a two-week period," she said. "But with a later Easter, spring-break travel was spread over, like, four weeks."

While quirks like that are simply noise in the data, it's too early to gauge the impact of other factors. That said, STR has revised its forecasts down from earlier in the year.

"We were expecting RevPAR to be 1.8% for 2025; now, it will only be slightly positive," she said.

STR expects average daily rate (ADR) to be the strongest contributor in the second quarter, followed by occupancy in the third quarter; revenue per available room (RevPAR) gains will mostly be fueled by ADR through the year.

"That's not a change in thinking, but the amount of growth expectation for the year has been lowered," Hite said. "The interesting thing is the performance has not been that bad this year; for Q1, we had hotel demand grow 1%. If you read the headlines and listen to the forward-looking sentiment in the industry, it feels really negative. But we've had some solid performance."

As is always the case, results will vary based on region, market segment and other factors. Let's dive into some specific areas.

HOT SPOTS

Although there are many things influencing this year's outlook for hotels, it's clear that the top 25 markets and luxury hotels are outperforming the rest of the market, according to STR. ALHI Member properties, such as the The Langham Chicago, are among the luxury segment that is navigating well the industry uncertainties. PHOTOGRAPHY COURTESY OF THE LANGHAM CHICAGO

As in recent years, the top 25 markets continue to outperform. "We've got demand growth," Hite said. "The top 25 markets have done much better than the rest of the markets."

In April, STR analyzed data from top markets that weren't affected by one-off issues like the wildfires in Los Angeles, California.

"There are 17 markets that had no one-off impacts in the first quarter, and they had demand growth of 1.2%," she said.

Another macro trend is that luxury and upper upscale continue to outperform.

"That's where we expect most of the growth that will continue," Hite said. "The lower end of segments might get hit a little worse, and they're already sort of flat or either slightly positive or negative, depending on which segment it is."

COOLING EFFECT

Tepid growth marks a departure from expectations leading into 2025 for business travel.

"As we started this year, the hope was we would get some loosening of private investment if policy played out with tax cuts and deregulation," Hite said. "We thought there was some upside, that you could see business travel pick up."

That has certainly changed.

"Because of the uncertainty with policy, businesses are doing nothing," she said. "The good news for the industry is businesses are not broadly cutting travel."

In fact, STR reports that group travel isn't dropping precipitously. "We see occupancy growing during the middle of the week, which is what we had expected to happen this year," Hite said.

One exception is government travel, since funding cuts at the federal level have reduced nonessential spending.

"That's more impactful in a market like D.C. where there have been some group cancellations, but for individual travelers across the top 25 markets, it doesn't really show up," Hite said.

CONSUMERS FEEL THE PINCH

In May, the University of Michigan's closely watched consumer sentiment index dropped to 50.8, the second-lowest reading on record. That represents a decline of nearly 30% since January.

"Tariffs were spontaneously mentioned by nearly three-quarters of consumers, up from almost 60% in April," Surveys of Consumers Director Joanne Hsu said in a press release. "Uncertainty over trade policy continues to dominate consumers' thinking about the economy."

But not all consumer data is that negative. Hite noted that employment is good and that weekly earnings are growing above the rate of inflation. "Those are really good signs that travel will continue," she said. "When we look at the first-quarter performance, demand was just a little softer than what we had anticipated in the first quarter."

INBOUND TRAVEL INFLUENCES

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According to several reports, negative international sentiment around U.S. policies on tariffs and immigration is translating into a reduction in inbound travel.

For example, aviation analytics company OAG has reported that flight bookings from Canada are down more than 70% year over year each month through September, while Canadian spring-break trips to Florida dropped from 1.2 million in 2024 to just under 300,000 this year.

Canadians aren't the only ones staying home or going elsewhere. Visit California, the state's tourism agency, reported these year-over-year statistics for March:

- **11% decline** in nonresident international arrivals
- **15.5% decline** in Canadian arrivals
- **24.2% decline** in Mexican arrivals
- **26.2% decline** in German arrivals
- **22.1% decline** in U.K. arrivals

Of course, domestic travelers could take up some of that capacity, but Hite noted that would only help to a certain extent.

"The issue there is that U.S. travelers just don't pay as much," she said. "International travelers spend so much more money when they come into the U.S., and they stay for longer."

CONSTRUCTION COULD SLOW

Some observers expect hotel construction to slow if tariffs lead to higher costs for lumber and concrete, not to mention construction workers. Hite agreed but for different reasons.

"The biggest concern about any construction is the furniture and fixtures you have to buy to put in the hotel once it's built," she said. "Those come from either China or Vietnam; they're not made in the U.S."

Hite anticipates a slowdown in projects that haven't already broken ground.

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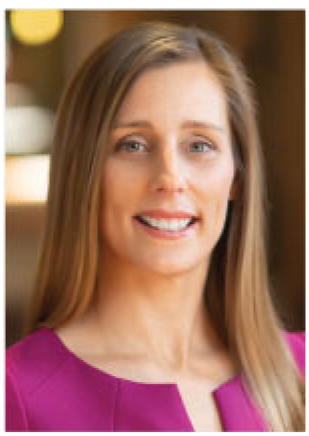
"If you're under construction with a hotel, you're better off getting it finished and getting it into the market because newer hotels tend to be able to attract demand," she said.

Hite also expects some brands to revisit their property improvement plans.

"They're going to need to loosen those requirements this year because of the tariffs," she said. "Again, that's because of the furniture and fixtures you have to import from another country."

CAUTIOUS OPTIMISM

As tariff policies and the broader economic outlook evolve, forecasts could quickly shift. Hite happened to be meeting with a group of owners and operators in early April, just a couple of days after President Donald Trump announced most of his tariffs.



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Amanda Hite, President and CEO STR

"Everyone was freaking out on that day," she recalled. "Now, the sentiment is a little less freak-out but certainly still cautious."

In a recent interview, Barbara Muckermann, CEO of Kempinski Hotels, noted the importance of taking the long view in capital-intensive businesses like hotels.

"It is very dangerous to make decisions on the spur of a moment," she said. "You need to have a strategy, which is a long-term strategy, and stick with it."

That seems to have worked for her company. It's been in business since 1897.

THE VIEW FROM EUROPE

BECAUSE EVERY MARKET is different, ALHI sought the input of two European hotel leaders: Stefan Soennichsen, Managing Director at The Langham in London, and Stephan J.A.B. Stokkermans, Managing Director of Grand Hotel Huis ter Duin in Noordwijk aan Zee, The Netherlands.

Both expect modest growth in the European hotel industry. Soennichsen anticipates RevPAR growth of 1-2%, while Stokkermans sees steady growth across RevPAR, ADR and occupancy.

"Factors such as the uncertain global economic outlook, the ongoing war in Ukraine, an oversupply of rooms in certain markets and regional political instability may all contribute to restrained performance growth," Soennichsen said.

Both see restrained performance being relatively temporary. For example, Stokkermans is seeing a growth in RFPs with a longer lead time, even though the nearer-term group market is "a bit wobbly."

Changes in U.S. travel patterns could benefit European markets, at least to some extent.

"Given that the USA is one of Europe's largest outbound travel destinations, a decline in transatlantic travel may lead to more Europeans opting for domestic or regional leisure trips instead," Soennichsen said. "However, replacing long-haul demand with local travel will be challenging in terms of spend and length of stay."

THE OUTLOOK FOR U.S. HOTELS

STR'S AMANDA HITE shared these topline forecasts for the U.S. this year:

- RevPAR growth of 0.5-1.0%
- ADR growth of 1.1-1.6%

- Occupancy growth of 0.0–0.5%

IN ITS OWN 2025 State of the Industry Report earlier this year, the American Hotel & Lodging Association painted a similar, if somewhat rosier, picture:

- RevPAR is expected to increase by 2.58%, reaching a record high of $102.78.
- ADR is likely to rise to a new high of $162.16, exceeding 2024 by 1.99%.
- U.S. hotel occupancy is projected at 63.38%, an increase of 0.37% over 2024.