From 2019 to 2022, U.S. hotel revenue saw the sharpest decline and subsequent recovery of any prior cycle. Prior declines due to economic and business “black swan” events required four to eight years for RevPAR to recover. The current market has seen RevPAR and overall revenue in the 12 months ending June 2023 reach a historical peak, just three years from the initial decline. The recovery is driven by exceptionally strong daily rate growth, as national hotel occupancy is still striving to recover to 2019 levels. The recent performance data is summarized in the chart below.

Supported by higher inflation and the continued growth in leisure travel, hotel operators in many markets have been able to offset the post-pandemic lag in business travel with stronger weekend and seasonal lodging use at higher rates. Overall demand (occupied room nights) is almost back to the peak 12-month amount, with 1.29 billion occupied room nights sold in the 12 months ending June 2023, compared to 1.3 billion in 2019. However, occupancy has changed little, given 3% increase in hotel rooms since that time.
ADR, REVPAR, OCCUPANCY TRENDS

Source: CoStar/STR, Cushman & Wakefield

ANNUAL CHANGES IN SUPPLY, DEMAND AND REVPAR

Source: CoStar/STR, Cushman & Wakefield
As 2023 progresses, however, nationwide hotel performance is moderating. The post-pandemic travel surge of 2022 is waning, partially to the benefit of overseas destinations. After being limited by regional and domestic vacations, leisure travelers were excited to venture out into the world this summer. Demand is moderating in many markets and as a result, the average rate of growth is moderating.

The recovery of the low average pricing of 2020 and 2021 resulted in substantial growth rates in 2022, which are moderating to monthly trends in line with pre-pandemic levels.

The growth in average rate has to be considered in the context of inflation. STR’s analysis of average rate relative to inflation indicates that while the 2022 average rate set a record in nominal dollars, that amount adjusted for CPI only indexed to 97.5% of 2019. STR’s most recent forecast, however, anticipates the nominal average rate in 2023 to be equal to that of 2019, but with a lagging occupancy. In the same forecast, the national average RevPAR is not expected to reach the 2019 level until 2024.

Although RevPAR set a record of $97.08 in the 12 months ending June 2023, the magnitude of rate and occupancy changes is not uniform for all the STR chain scales. The luxury segment RevPAR shows the greatest decline month-over-month in 2023, as demand for resort destinations normalizes from the pandemic flurry of travel to outdoor destinations. Recovery in urban upscale and upper upscale hotels lagged other hotel product segments, but they are seeing stronger growth, driven by improving business travel and strong group business. The RevPAR of economy properties, which saw surges during the pandemic from utilization by local residents, first responders and necessary workers, are also slowing, as some services are no longer needed and as rate differences to higher-level properties contracts.
The number of rooms under construction declined from its pre-pandemic peak of around 210,000 to around 150,000 rooms in June. The largest portion of the pipeline, approximately 70%, comprises select and limited-service, and extended stay hotels. These properties are typically 90 to 160 rooms and are often financed by local and regional banks. With construction periods of up to three years, it is possible that some of the projects under construction were financed prior to the surge in interest rates. Our experience is that some construction schedules, particularly for larger hotels, are being extended as developers refine their capital stack during the projects.

While the number of hotel rooms under construction has been consistent in 2022 and 2023, the number of rooms in “final planning” has declined by 36%. These projects are likely stalled due to construction cost and financing challenges. As a result, the pipeline is anticipated to decline. Industry participants are encouraged that the more gradual supply changes will continue to support both occupancy and average rate growth. The softening of new supply as markets improve is counter to prior cycles. Historically, new hotels are planned, financed and built as revenues are improving, only to open during periods of declining performance.

Source: CoStar/STR, Cushman & Wakefield
Data from the last 12 months shows that 21 of the 25 top markets have fully recovered with a TTM 2023 RevPAR performance that exceeds 2019 figures. Seattle and Philadelphia are quickly closing the gap with differences of 1.7% and 3% respectively, between TTM 2023 and 2019. Minneapolis continues to struggle with absorbing new supply and a convention calendar impacted by pandemic-related cancellations. San Francisco remains exceptionally challenged with its reliance on a tech industry that continues to reduce its office space and workforce, a dwindling convention center calendar, struggling retail market, lack of inbound overseas tourists, and myriad social challenges.

Whereas occupancy has steadily improved since the initial years of the pandemic, the composition of demand has firmly changed. While the durability of this demand in a post-pandemic revenge travel environment was more in question in the beginning of the year, the industry’s performance in the last six months has provided greater confidence to owners and operators. Leisure travel has become even more important, as business travel staggers with the establishment of hybrid and remote work, particularly in travel-centric sectors, such as consulting. Midweek travel and hotel use has been the slowest to recover to 2019 levels, as shown in the following chart.

Leisure demand led the recovery and continues to drive the majority of hotel use in many markets.
Recently, airlines have reconciled to this new normal since midweek business airline travel has not returned as shown in the chart below.

**Weekend and holiday travel exceeded pre-pandemic levels as travel surged, even as summer travel moderated.**

United and Delta Airlines recently reported that short-term bookings are weaker than long-term bookings, in contrast to the short booking windows of the past three years. Nevertheless, Frontier Airlines has reduced Tuesday and Wednesday flights by 20%. These days are the most common days that people work from the office. Southwest Airlines recently announced a plan to revamp its schedule, reducing short-haul trips and increasing long-haul flights to leisure destinations and shifting early morning and late-night times formerly favored by business travelers. The hybrid work environment, however, has been beneficial for the airline and hotel industries, as workers have greater flexibility in where they work and are taking advantage of this premise. There is an acceptance of working from anywhere and “bleisure” travel as an ordinary pursuit rather than a special or luxury activity. Interestingly, the performance of Saturday passenger vs. hotel room demand has diverged, potentially suggesting a growth in family and group travel over solo travel.

Group demand continues to improve and is compensating somewhat for the decrease in business travel. Owners and operators report the appeal of multi-day meetings is gaining corporate acceptance as a cost-efficient means of gathering and socializing groups that may be working remotely in many locations.

Inbound international demand has yet to return to pre-pandemic levels, and this segment offers opportunities for continued strengthening of revenue performance.
According to the U.S. Travel Association, overseas arrivals made slight growth recently and remained 26% below 2019 levels, as of May 2023. Although vaccine requirements were lifted for travel to the U.S., visa wait times and restrictions, along with airspace restrictions in Russia, are constraining inbound visitation. The higher cost of hotels and airfares in the U.S. is also a deterrent for inbound overseas visitors from countries where the internal economic trends have been challenging.

Nevertheless, travelers are back on U.S. roads. The U.S. Travel Association forecasts that auto trips in 2023 will match 2019, even as the price of gas has increased over 40% during this period.

A post-pandemic enthusiasm for travel has demonstrated that inflation, gas prices and higher interest rates were not a deterrent for travelers, though the surge of outbound U.S. travel abroad this summer resulted in some tempering of domestic leisure demand.
HOTEL TRANSACTION OVERVIEW
Hotel transactions faltered in the first six months of 2023. The high interest rate environment inhibited buyers and sellers, and very few deals closed, as shown in the chart below.

Source: Moody's Analytics, Cushman & Wakefield

High interest rates and challenges in sourcing debt contributed to large bid/ask spreads that limited investment transaction activity overall. Unless sellers were particularly motivated, few assets were offered for sale and fewer sold. Still there were two large transactions: the Curio Diplomat Resort & Spa sold for $835 million, and the JW Marriott San Antonio sold for $800 million. Additionally, 18 hotels sold in the first half of 2023 for between $100 million and $170 million. Most transactions are much smaller, in the $10 million to $30 million range. Unlike recent years, where large deals were pursued for the efficiencies and fees they offer, smaller deals are now more attractive. Competing for financing deals traditionally handled by regional banks, originators are ramping up small balance loans for commercial mortgage-backed securities, with thresholds of $5 million to $15 million.

Commercial property assessed clean energy (C-PACE) financing continues to be sourced as part of many owners’ capital stacks. Available in 38 states, C-PACE financing is available for new and existing hotels to fund energy efficient infrastructure items. The funds, which can be as high as 35% of the property value, can also be used to upgrade systems in existing hotels. The loans are made by private lenders and repaid through property assessments administered by local governments or development authorities. The loan’s terms, regarding repayment and foreclosure, are determined and managed by the lender. Interest rates for C-PACE loans are typically lower than mezzanine debt.
A higher proportion of hotel transactions are also being financed with private entities, though some domestic and overseas banks remain active for the right borrower. Many commercial banks have pulled back on hotel financing, along with commercial real estate overall. Some are selectively financing hotels if the borrower is a holistic bank client for other fee-based services and if the equity structure provides ample risk reduction.

The disconnect between
the constrained hotel
investment and lending
market and the strong
operating performance
of most major U.S. hotel
markets is particularly
frustrating for participants.

Conversely, hotel owners
with some runway left on
their older, lower-rated
mortgages can profit
from the strengthening
performance, reducing
any reason for disposition
and leaving current buyers
with mortgage envy.

Hotel owners that are not in as fortunate of a position are
seeing foreclosures on their assets. Ashford Hospitality
announced its intent to hand back the keys on three KEYS
debt pools (19 hotels), with a combined principal balance
of approximately $570 million; Ashford decided not to pay
down balances on the loans to be in compliance with the
debt yield extension tests. Separately, Ashford paid down
the principal balances of three other KEYS pools by $129
million, to meet the debt yield extension tests. Park Hotels
& Resorts announced it had ceased making payments
on a $725 million loan for nearly 3,000 rooms across two
large convention hotels in San Francisco: the Hilton Union
Square and Parc 55 Hotels.
In the area of commercial mortgage-backed securities, Trepp reports a recent improvement in the lodging delinquency rate. The most recently reported rate of 3.48% in July is significantly lower than 6.13% reported 12 months ago. According to Trepp, over 33 billion in hotel loans are scheduled to mature in 2023, with an additional $21 billion in 2024, providing potential future challenges.

### Upcoming Hotel Debt Maturities by Year

<table>
<thead>
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<th>Year</th>
<th>Amount</th>
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<td>$36B</td>
</tr>
<tr>
<td>2026</td>
<td>$27B</td>
</tr>
</tbody>
</table>

Source: NCREIF, MSCI/RCA, Cushman & Wakefield

Note that unlike prior down cycles, the lodging delinquency rate is below the delinquency rate for office and retail, the sectors that presently pose more concern for real estate market participants.

As a result, new loans and refinancings for hotels continue to be challenging. While the lodging industry’s operating performance is recovering from the effects of the pandemic and “normalization” is the current sentiment, the rates of the returns for hotel investments and valuations remain high, primarily due to the elevated cost of debt and the expectation of a moderating operating performance.
INVESTOR PROFILE
Private equity buyers, including family offices, continue to be the largest group of hotel buyers. Private funds continue to accrue capital for hotel investments, with buyers primed when opportunities become available. More recently, there has been a notably declining ratio of cross-border buyers. With opportunity for yield in other countries, investors in the current environment are less interested in U.S. hotel deals.

COMPOSITION OF BUYERS
![Bar chart showing composition of buyers](chart.png)

Source: MSCI/RCA, Cushman & Wakefield

Hotel investors remain primed for acquisitions, with an interest in distressed assets, although as in more recent cycles, few opportunities have been available. The high interest rate environment continues to thwart investment activity, even as performance fundamentals improve, leaving REITS and institutional buyers on the sidelines.

OTHER INDUSTRY CONSIDERATIONS

Recession or not – The threat of a recession has been on the horizon for many months. Economists have yet to reach a consensus on the potential or depth of such an event. Major U.S. banks have issued statements moderating the strength and timing of a potential recession, amid some surprisingly resilient indicators. Other economists have not ruled out a recession and have predicted a weaker economy at the end of 2024, with softer corporate revenue and profits and a pull-back in the stock market. Cushman & Wakefield’s Global Think Tank indicates the U.S. economy remains resilient despite facing one of the most dramatic cycles of rate hikes in modern history—but our outlook is currently forecasting a mild recession to take hold in later quarters.

Operating Cost Increases – For hotels, inflation is a double-edged sword. Average rate increases are more accepted, but operating costs, particularly labor, are also growing. Higher insurance costs and availability, particularly in coastal areas, is a major consideration for hotel owners and operators. Florida and California are being avoided by insurance companies, because of property damage caused by climate change. Despite the revenue growth, profitability is impacted.

PIP Renovations – During the pandemic, efforts to conserve cash meant delaying brand-required PIPs and other capital projects. The strength of the industry’s performance has allowed some properties to improve
even as their condition continued to deteriorate. Renovation requirements for hotels are expected to be priorities in the next few years, which will have an impact on pricing for transactions and valuations of existing assets.

**Supply chain issues** – While the supply chain impacts in 2020 and 2021 have moderated, many hotels are still impacted by the time required to obtain materials from overseas. Hotel operators and owners are increasingly sourcing operating supplies and construction materials/FF&E domestically to save time and money.

**Climate change** – The heatwaves in the summer of 2023 impacted travel patterns. Europeans traveled farther north to destinations such as Norway and Denmark. Travelers around the world are learning to avoid hotter destinations. In the U.S., the national parks are issuing heat alerts. In addition, travelers are being advised to avoid impacted areas such as Phoenix and other Sun Belt markets during peak temperature highs.

**To fee or not to fee** – Resort and urban hotel fees were well established in recent decades but have come under greater public and political scrutiny recently. These fees are often tied to lodging amenities, including use of fitness facilities and recreational amenities, vehicle charging, local phone calls, WIFI, rollaway, and discounts on laundry. Much of the controversy surrounding the fee relates to the transparency of these fees at booking or check-in, and hotel operators and brands are working to include these fees in the upfront transaction information.

**CONCLUSIONS AND OUTLOOK**

**Current sentiment remains cautiously optimistic.** The word of the moment is “normalization.” Applied to the national hotel industry performance, participants recognize that the revenue recovery is nearing 2019 levels, and future achievements are more in line with pre-pandemic historical trends. With mask use seemingly far behind us, consumers are more enthusiastic about travel than ever. Questions still remain about business travel trends and the full resurgence of downtown urban hotels, but national industry performance is maintaining an upward trajectory.

Local markets still show a wide range of results. The average rates and occupancies of many destination resort and convention markets have surpassed 2019 levels, while urban markets previously dependent on business travel and conventions are still struggling. The long-term implications of new travel patterns with softer midweek hotel usage are still evolving. Some markets, such as San Francisco, may require several more years to fully recover.

Investors looking to participate in the upside of this recent pandemic cycle are stymied by high costs and limited availability of financing. Private equity funds and family offices are aggressively pursuing deals, as reluctant sellers hoard assets. Unlike other cycles, hotels are more coveted for investment, as office and retail real estate falter. While the lack of leases is sometimes viewed as a higher risk factor, in the current shifting landscape of real estate use, the flexibility to raise rates each night is now regarded as a benefit.

**AUTHORS**

**ELAINE SAHLINS, MAI, CRE**
Executive Director
Valuation & Advisory
Hospitality & Gaming Group
+1 415 773 3531
elaine.sahlins@cushwake.com

**JEFFREY BROWN**
Senior Managing Director
Valuation & Advisory
Hospitality & Gaming Group
+1 404 682 1377
jeffrey.brown@cushwake.com

**JACOB ALBERS**
Head of Alternatives Insights
Global Think Tank
+1 312 424 8086
jacob.albers@cushwake.com

**ABOUT CUSHMAN & WAKEFIELD**

Cushman & Wakefield (NYSE: CWK) is a leading global commercial real estate services firm for property owners and occupiers with approximately 52,000 employees in approximately 400 offices and 60 countries. In 2022, the firm reported revenue of $10.1 billion across its core services of property, facilities and project management, leasing, capital markets, and valuation and other services. It also receives numerous industry and business accolades for its award-winning culture and commitment to Diversity, Equity and Inclusion (DEI), Environmental, Social and Governance (ESG) and more. For additional information, visit www.cushmanwakefield.com.

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