Hospitality Directions US

Our updated lodging outlook

November 2024

Post-election clarity and ADR increases likely to sustain hotel performance through 2025 amid modest demand growth

The US lodging sector is expected to experience muted growth in 2025, driven by moderate increase in average daily room rates and stable occupancy levels, resulting in an annual increase in revenue per available room of 1.5%. Despite stagnant supply levels over the past few quarters, new construction projects are expected to be spurred in 2025 by a combination of factors, including increasing optimism about a soft landing, easing monetary policies, and other capital markets tailwinds. However, overall impacts from the macroeconomic environment are expected to continue to suppress demand and occupancy growth in 2025.

Since our May 2024 outlook, the Federal Reserve has cut rates twice, beginning in September with a 50-basis point cut and most recently in November with a 25-basis point cut. The Fed's recent actions, along with moderating inflation levels of 2.8% and 2.2% quarterly increases in Q2 2024 and Q3 2024, respectively, per S&P Global, have fostered cautious optimism of a stabilizing economy and indicate potential easing of a constricted financing environment. Favorable shifts in the overall financing landscape are expected to drive increasing construction starts throughout 2025.

Demand growth in 2025 is expected to be muted, primarily due to decelerating consumer spending and GDP growth, which is projected to increase by an annual average of 2.7% and 2.1% in 2024 and 2025, respectively. Despite the continuing growth in business travel, particularly meetings and group business, and the potential resurgence of inbound international travelers to pre-COVID levels, economic challenges are expected to continue to impact leisure travel. This outlook may shift as the current landscape of political and economic uncertainty becomes clearer in the coming months after the recent election, including the potential impact of immigration policies, evolving travel patterns and restrictions, as well as tariffs, among others.

Expected growth in ADR in 2025 offers a redeeming trend in light of muted supply and demand growth, driven by the continued strength of higher-priced chain scales. Performance gains from ADR are expected to average 1.5% and 1.3% in annual growth for 2024 and 2025, respectively, resulting in an ADR-driven annual increase in RevPAR of 1.3% and 1.5%, respectively. Significant risks to this outlook include the pace of changes in the macroeconomic environment, the pace of rate cuts and evolution of monetary policy, and the impact of policy implementation after the recent election.

Our revised outlook for 2025 anticipates

Demand growth projected to be sluggish during Q1 of 2025 before rebounding in the remainder of 2025, resulting in **occupancy** of

62.9%

Growth in **average daily rate** to remain steady throughout the year, in line with moderate inflation levels, for an increase of

1.3%

As a result, anticipated **RevPAR** growth remains stable, for an annual increase of

1.5%

pwc

Easing inflation, strong equity markets, and healthy unemployment gives hope for a soft landing

Stabilizing GDP growth, easing inflation, strong equity markets, unemployment near the natural rate consistent with stable inflation and full employment output, and aggressive rate cuts are resulting in increased optimism for a soft landing for the US economy.

September unemployment for the accommodations sector increased to 5.2% (from 3.6% in May), and the US overall rate in increased 10 basis points since May to 4.1%. S&P Global expects annual unemployment levels to remain between 4.0% and 4.6% through 2028. The 12-month increase in average hourly earnings remained high at 4.0%, and slightly above the 3-3.5% range viewed as consistent with sustaining 2% inflation. The continued strength in hourly earnings growth supports the rationale for the Federal Reserve to exercise caution as it eases monetary policy growth.

Source: S&P Global (forecast released October 2024); Bureau of Labor Statistics (November 5, 2024); PwC

Despite a less pronounced slowdown in GDP growth compared to prior periods, S&P Global expects the unemployment rate to rise to a peak of 4.6% in 2027.

Consumer spending is expected to increase on an annualized basis by 2.6% in 2024 and 2.4% in 2025. Inflation continues to ease, but more time is necessary for stabilization. S&P Global's PCE price index forecast for 2024 is 2.2% on a fourth-quarter-over-fourth quarter basis, remaining stable at the same rate in 2025.

S&P Global indicated a downside risk to its forecast include any potential escalation of the wars in the Middle East and Ukraine and its impact spilling over into capital and energy markets.

Table 1: US outlook (November 21, 2024)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Demand growth	2.4%	1.2%	2.4%	2.3%	1.5%	-36.1%	37.8%	10.6%	0.9%	0.1%	0.5%
Supply growth	0.9%	1.0%	1.8%	1.8%	1.8%	-4.2%	5.2%	1.7%	0.2%	0.2%	0.4%
Occupancy	65.1%	65.3%	65.7%	66.0%	65.8%	43.9%	57.5%	62.5%	63.0%	62.9%	62.9%
% change	1.5%	0.2%	0.6%	0.5%	-0.3%	-33.3%	31.0%	8.8%	0.7%	-0.2%	0.1%
Average daily rate	$120.90	$124.54	$127.10	$130.25	$131.56	$103.30	$124.72	$149.52	$155.99	$158.36	$160.49
% change	4.4%	3.0%	2.1%	2.5%	1.0%	-21.5%	20.7%	19.9%	4.3%	1.5%	1.3%
RevPAR	$78.75	$81.29	$83.47	$85.94	$86.58	$45.35	$71.72	$93.51	$98.22	$99.53	$100.98
% change	6.0%	3.2%	2.7%	3.0%	0.7%	-47.6%	58.2%	30.4%	5.0%	1.3%	1.5%
GDP, % change Q4/Q4	2.1%	2.2%	3.0%	2.1%	3.4%	-1.0%	5.7%	1.3%	3.2%	2.3%	1.9%
Inflation, % change	0.2%	1.0%	1.7%	2.0%	1.4%	1.1%	4.2%	6.5%	3.7%	2.5%	2.1%

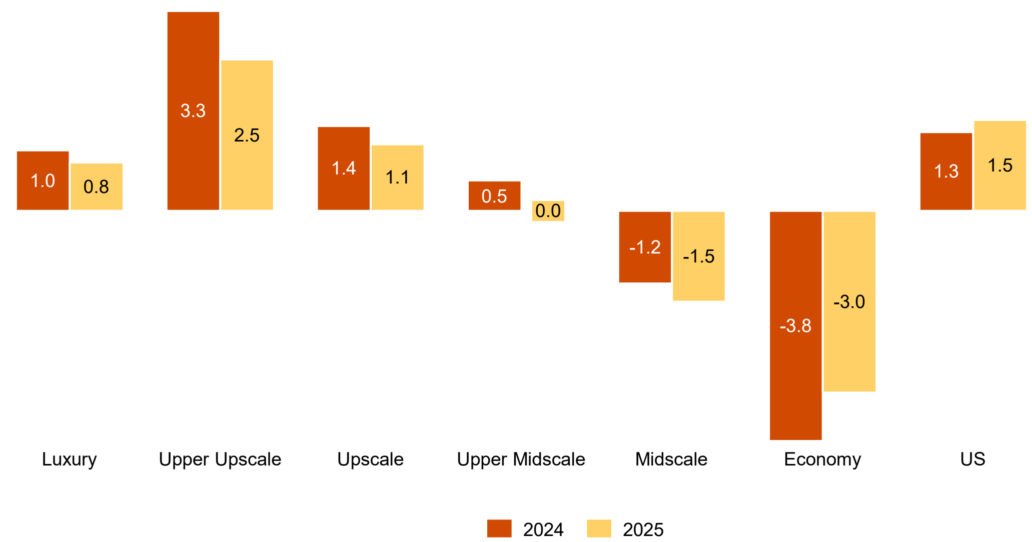
Source: STR; Bureau of Economic Analysis; S&P Global (forecast released October 2024); CoStar; PwC

Table 2: Chain scale outlook, percentage change from prior year

	2024					2025				
Chain scale	Demand	Supply	Occupancy	ADR	RevPAR	Demand	Supply	Occupancy	ADR	RevPAR
Luxury	10.0	6.5	3.3	(2.2)	1.0	4.7	2.8	1.8	(1.0)	0.8
Upper upscale	3.6	2.2	1.4	1.9	3.3	3.4	2.4	1.0	1.5	2.5
Upscale	1.0	1.1	(0.1)	1.5	1.4	3.1	3.4	(0.3)	1.4	1.1
Upper midscale	0.7	1.5	(0.8)	1.3	0.5	2.3	3.3	(1.0)	1.0	(0.0)
Midscale	(0.7)	0.5	(1.2)	0.0	(1.2)	2.4	3.8	(1.3)	(0.2)	(1.5)
Economy	(3.1)	(1.2)	(2.0)	(1.8)	(3.8)	(0.0)	1.5	(1.5)	(1.5)	(3.0)

Source: PwC, based on STR and CoStar data

Figure 1: RevPAR % change, US and chain scales



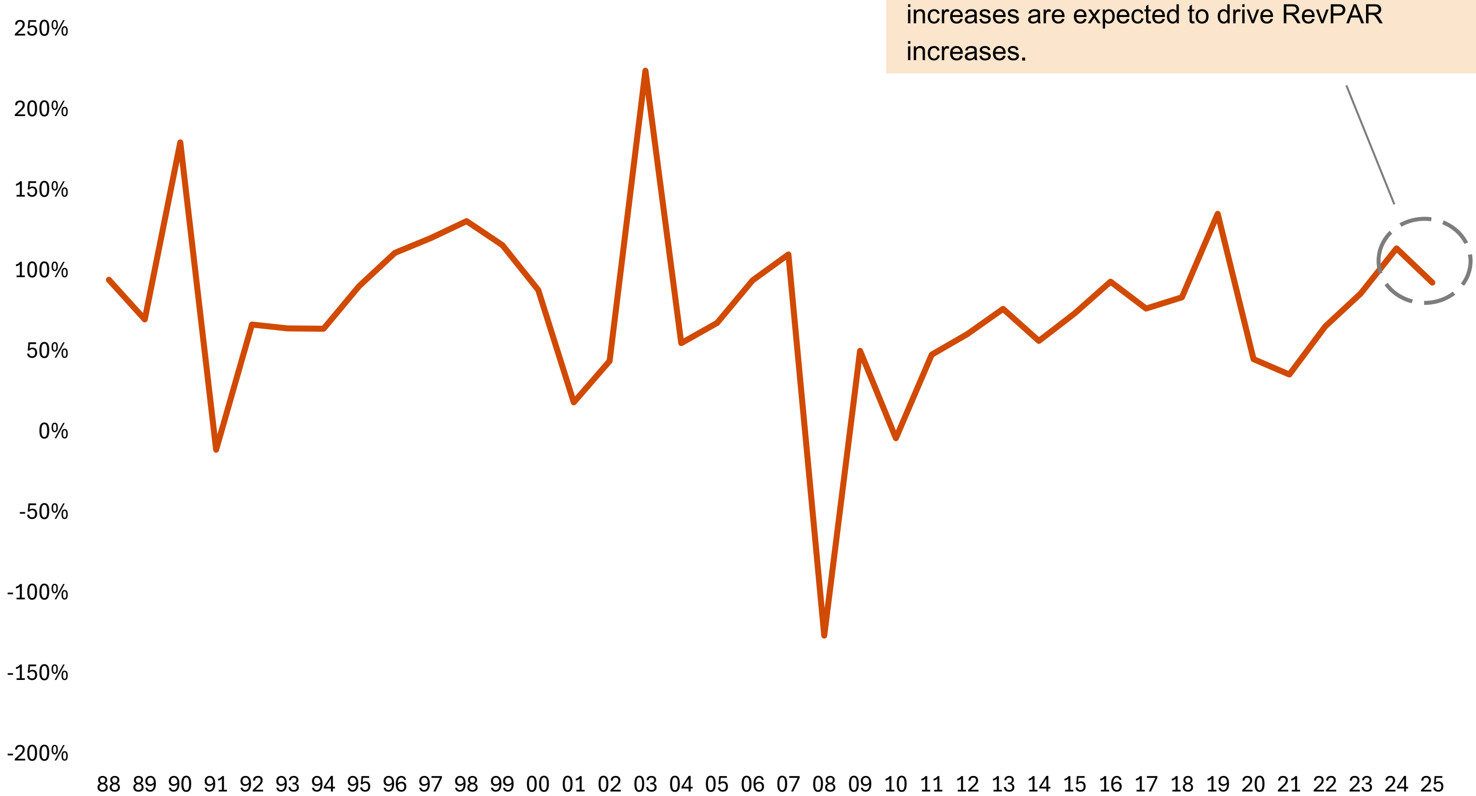
Hospitality Directions Outlook Tables

For detailed outlook tables covering the US and each of the chain scales, please access the *Hospitality Directions Outlook Tables* available online.

Source: PwC, based on data from STR

Figure 2: ADR contribution to change in RevPAR

As demand and occupancy levels remain stable for the balance of 2024 and 2025, ADR increases are expected to drive RevPAR increases.



Source: PwC, based on data from STR

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Definitions

Abbreviated terms include average daily rate ("ADR"), revenue per available rooms ("RevPAR"), and real gross domestic product ("GDP"). Growth rates are percentage change in annual averages.

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