Hotel Cliff Notes

Q3 2025

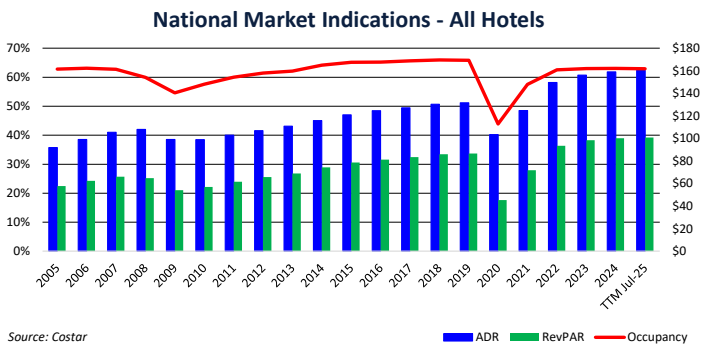
Quarterly newsletter offering a high-level snapshot of the hotel investment landscape, specifically for readers outside the industry.

Hotel Performance Trends

- Demand recovered from COVID in 2022 and has been broadly flat since (Exhibit A).
- Occupancy remains 2.8 percentage points (pp) below 2019. The shortfall is larger in the Upscale and higher segments (−4.3 pp).
- Average Daily Rate (ADR) has risen 21.8% vs pre-COVID (2019), but has significantly moderated recently - up ~ 2.0% compound annual growth rate (CAGR) since 2022.
- After inflation, ADR and Revenue Per Available Room (RevPAR) remain below 2019 and continue to deteriorate (Exhibit B).
- Year to date, occupancy is down 0.6% overall (down in all segments except Luxury), driven by +0.1% demand vs +0.7% supply.
- Most of national hotel forecasts are being revised downward this year. For example, Costar/STR forecasted 2025 occupancy to be 63.1% in January, 62.8% in June and 62.5% in August. ADR growth forecasts have also been reduced: +1.6% → +1.3% → +0.8%.

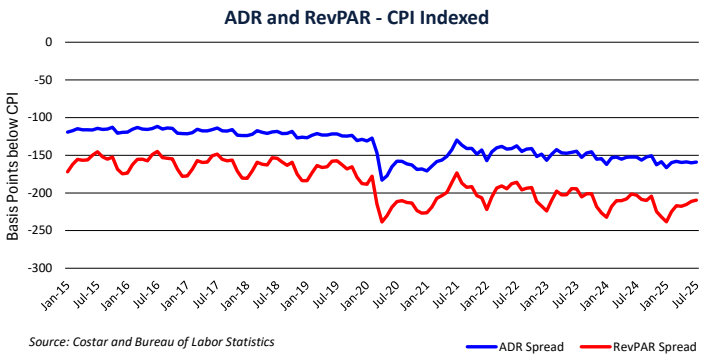
Takeaway: Occupancy softness can be read as bearish, but the lodging market is inherently erratic. Occupancy was down 0.6% at this point last year yet finished the year flat. The downward revisions to national forecasts are more concerning, though they still show positive growth. The real concern is ADR growth lagging CPI, which continues to compress profit margins.

Exhibit A



Source: Costar

Exhibit B



Source: Costar and Bureau of Labor Statistics

Gauging Market Sentiment

- Investor sentiment is split: some see early-cycle growth; others expect a downturn comparable to the Global Financial Crisis (2008–09). Most fall somewhere in between. Word of the day: Uncertainty.
- Risk focus is shifting: from policy/geopolitics (government spending, trade, Middle East) to concerns about a consumer pullback.
- For-sale inventory is rising but closed transaction volume isn't keeping pace. Year-over-year transaction volume continues to slow. Brokers note little near-term optimism.
- Deal mix: transactions are mainly sub-$20M and led by regional buyers, with a large preference for sub-$7M due to SBA 7(a) qualification.
- Institutional investors remain on the sidelines, with limited activity and lower attendance at national hotel conferences.
- New development pipeline slowing, driven by high construction costs vs ADR growth.
- Timeline: uncertainty has persisted since late 2022, when rate hikes effectively stalled the market.

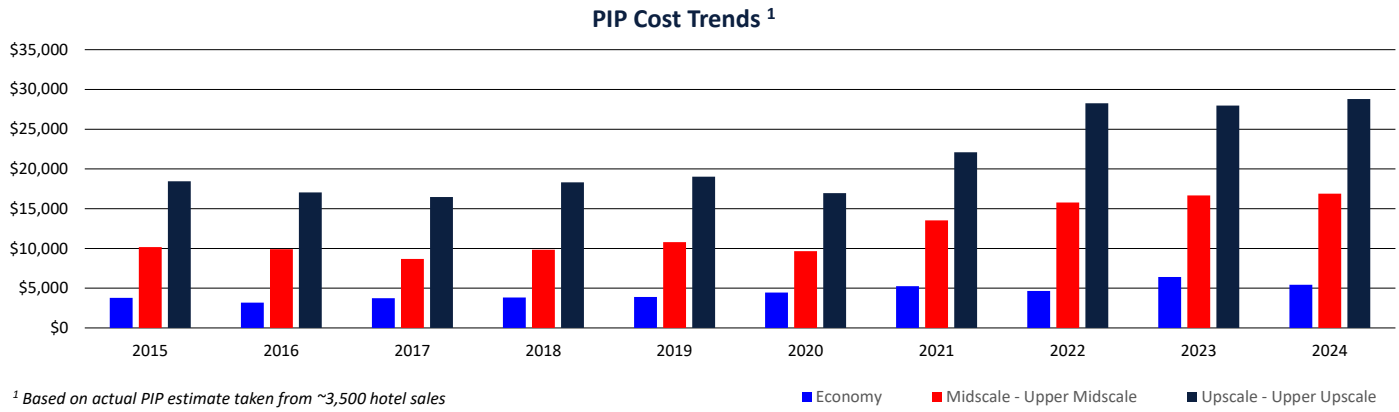
Takeaway: Most investors expect uncertainty to remain; barring a major disruption, a lowering of interest rates, or a clearer growth trajectory. Deals will continue—primarily at the lower end of the market, where financing options are better and labor costs are more controllable.

Relevant Issue: Hotels Falling Behind on PIPs

- A Property Improvement Plan (PIP) is a list of renovations required by the franchisor to meet current brand standards.
- Stronger brands wield more leverage and demand substantial reinvestment. Failure to comply with a PIP can jeopardize the franchise agreement.
- Hotel owners have faced extreme volatility since 2019: near-shutdowns during COVID, a rapid leisure-travel rebound, then inflation and rising interest rates. In response, many postponed renovations.
- During this time PIP costs have increased sharply (Exhibit C), and elevated interest rates make refinancing—the typical funding source—more difficult.
- Buyers are increasingly reluctant to purchase hotels that require a major PIP, fearing inevitable cost overruns.

Takeaway: Hotel owners will continue to push back on renovations, but stronger brands have the leverage to get them done or force a sale to someone who can. Growing inventory will increase the discounts sellers must offer on hotels with significant PIP requirements. Lenders should understand borrower needs and address them proactively.

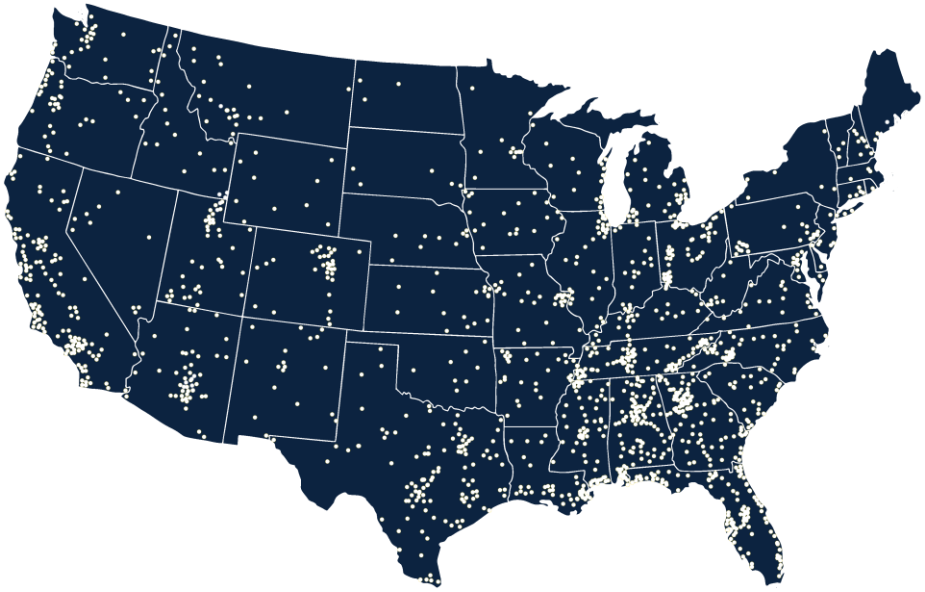
Exhibit C



[1] Based on actual PIP estimate taken from ~3,500 hotel sales

About Us - Cowart Hospitality Advisors, LLC

Cowart Hospitality Advisors (CHA) is a national hotel appraisal and consulting firm with more than 20 years of experience over 3,000 assignments across all 50 states. CHA combines deep valuation expertise with real-world experience in hotel development, ownership, and management through its related company, Cowart Hospitality Services, LLC.



Adam Cowart, MAI
Birmingham, AL
205.382.0616
adam@CowartHospitalityAdvisors.com