Hotel Cliff Notes

Q4 2025

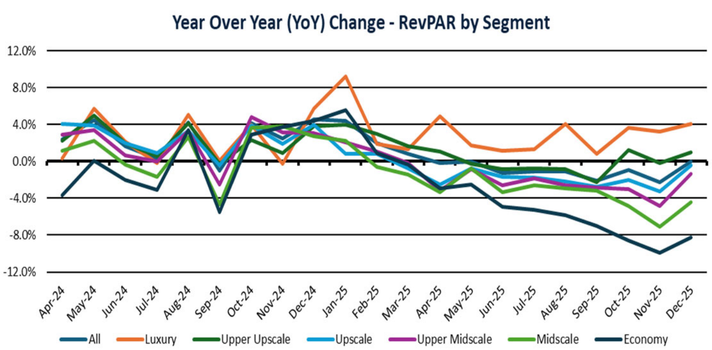
Quarterly newsletter offering a high-level snapshot of the hotel investment landscape, specifically for readers outside the industry.

Hotel Performance Trends

- Occupancy has been trending down for most of 2025, declining for ten straight months year over year through December and finishing 2025 down 1.2% compared with 2024. ADR is up only 0.9%, leaving overall RevPAR down 0.3%. The downward trend has only accelerated through 2025.
- The most notable pattern this year is the widening gap by segment. Economy hotels saw the largest decline (-4.4% in RevPAR), while luxury (+3.0%) continues to outperform. The segments in between line up almost perfectly by price point (Exhibit A).
- The latest national RevPAR forecasts all call for modest growth in 2026 (CoStar +0.5%, PwC +0.9%, CBRE +1.3%), although each updated projection over the past year was revised lower. So, while the official outlook remains positive on paper, the trend is not. In real terms, the market is, and is projected to remain, in decline.

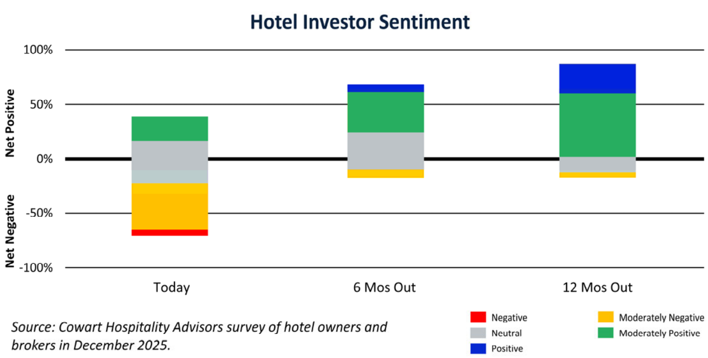
Takeaway: The downward trend, especially at the lower end of the market, is increasingly hard to ignore. The national forecasters still point to growth next year, but a history of viewing things through an optimistic lens suggests treating these "modest" gains as an upper bound rather than a base case, particularly with lodging demand so tied to employment and consumer spending.

Exhibit A



Source: CoStar Analytics

Exhibit B



Source: Cowart Hospitality Advisors survey of hotel owners and brokers in December 2025.

Gauging Market Sentiment

- Investor sentiment remains net negative based on a recent survey we completed of hotel owners and brokers, yet the same group expects sentiment to flip to net positive by the end of 2026 (Exhibit B). The primary area of concern noted in this survey is *Overall Demand/Economy* at 57.1%, followed by *Operating Costs* and *Interest Rates* at roughly 14% each.
- Many investors describe the market as "frozen," with a large share still on the sidelines waiting for better deals to emerge in 2026. Lower interest rates in 2026 are almost universally anticipated, although views differ on when and by how much.
- The expectation that "next year" will look better is not new; it was widespread a year ago and has largely been pushed out to 2026. There is still an active market for well-performing hotels with stable or improving trends, but concern about "catching a falling knife" remains a major deterrent for many assets in decline.

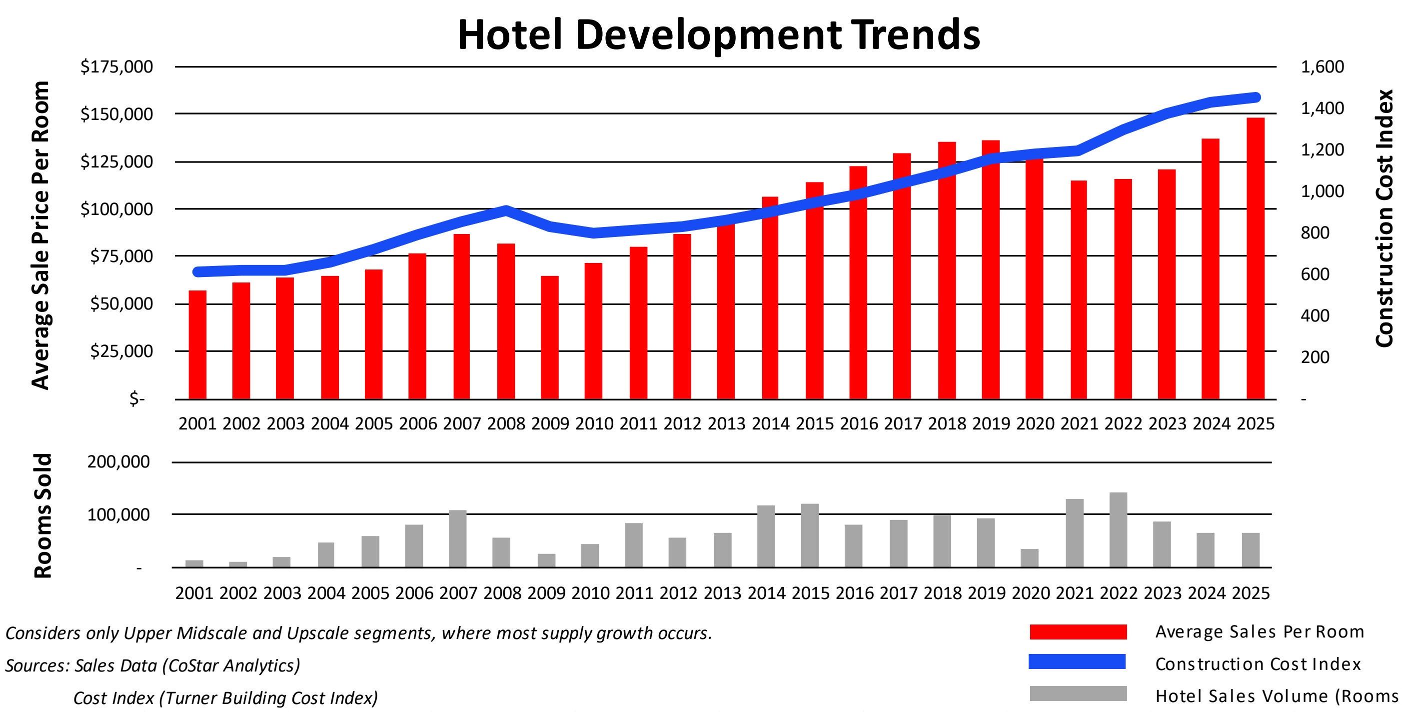
Takeaway: Investors generally expect uncertainty to persist in the near term, with improvement pushed into the back half of 2026. For transaction volume to pick up meaningfully, either pricing will need to reset lower or the growth story needs to materialize and push investors to try and front run price increases.

Hotel Development: Cost vs Price

- Fundamentally, investors elect to build hotels when it is cheaper than buying an existing asset. This is not intended to ignore other obvious factors (e.g., replacement products, shifts in demand, or changes in guest preferences), but cost versus price is a key driver.
- Additional considerations that drive development include the availability and terms of construction financing (currently tighter) and the expectation of strong ADR growth (currently weakening).
- Looking only at the relationship between construction costs and the average sale price of hotels (Exhibit C), the gap continues to favor purchasing over building on a historical basis.
- While this gap appears to be tightening (below), lower transaction volume plays a role. In most cases, owners would prefer to sell their weaker assets but have little compulsion to accept today's pricing. As a result, the sales that are closing skew toward better assets, pushing the average price above where it would otherwise be in a more typical mix of sales.

Takeaway: Hotel owners continue to take a cautious outlook on new development. An unofficial but notable drop in new deals signed in 2025 by both Hilton and Marriott reinforces this stance. The combination of declining inflation-adjusted ADR, higher construction costs, and softer demand trends make truly viable development opportunities much harder to find.

Exhibit C



Considers only Upper Midscale and Upscale segments, where most supply growth occurs.

Sources: Sales Data (CoStar Analytics)

Cost Index (Turner Building Cost Index)

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