STR TOURISM ECONOMICS AN OXFORD ECONOMICS COMPANY

STR/TE Market Forecast Assumptions – June 2025

U.S. Topline

The top-line U.S. RevPAR forecast has been downgraded 80-basis points to +1.0%. The downgrade is driven by a combination of calendar shifts, weakening macroeconomic indicators, and uncertainty caused by erratic tariff implementation and large-scale federal job losses as well as increasingly soft international inbound travel.

Despite the downgrade, both demand and ADR will continue to grow in 2025. The rate side remains strong with a slight downward shift to +1.3% for the year, while the primary reason for muted 2025 performance is demand, now forecasted to grow just +0.5% relative to 2024.

Natural disaster impacts and offsets continue to play an important role in the 2025 forecast. RevPAR growth is expected to be stronger in the first half of the year, as the continued impact from Hurricanes Helene and Milton continued to lift performance in affected markets through Q1. Impacts from these events began moderating around mid-March as expected, and offsets to the hurricanes will negatively influence demand growth comparisons in Q4 2025.

U.S. Chain scales

Hotel demand is expected to remain bifurcated along chain scales throughout 2025 and the first half of 2026. Luxury hotels remain the top-performing chain scale, with consistent growth in both demand and ADR year to date. Higher-end properties will continue to perform better than other chain scales due to their consumer base being less affected by short-term economic pressures.

All chain scales, except Luxury, have been downgraded in RevPAR due to various degrees this quarter. The primary area of focus is on the demand side, with the heaviest revisions to the select service properties. Typically, these properties have a solid foundation of both corporate and leisure demand. However, both types of demand are at risk as microeconomic concerns spread in middle-income consumers, and corporate travel becomes more focused and hesitant.

U.S. Markets

Hurricanes Milton and Helene continued to drive demand through March 2025, with normalization in April. This manifested in South Carolina, North Carolina, Georgia, and Florida, with multiple markets experiencing weekly double-digit demand increases YoY through March. Additionally, weather-related markets were able to keep Group rates steady with these markets showing ADR at +4.7% YoY through the middle of May. Q4 2025 will see significant pullback as hurricane performance falls out of the forecast, holding all else constant.

This forecast also shows some near-term pullbacks on supply as pipeline projects are directly impacted by the current macroeconomic environment. There are two factors in that equation, as properties not yet under construction are cancelled or delayed, while those under construction remain in the phase for extended periods of time.

Finally, an area where our assumptions have shifted is event impact on the forecast. Survey data still widely shows interest in travel for large-scale events, but consumers' willingness to do so is scaled back with the economic uncertainty. Major events, such as the Super Bowl, will continue to bring in heavy demand and even heavier ADR growth, but the impact from more mid-scale to lower-end events is much more muted. Only these "peak" events or market-specific events will drive heavy performance. Legacy act events are failing to sell out like initially predicted, with tours cutting shows or postponing altogether. For conferences and conventions, Group bookings are becoming more selective, as well as sending fewer attendees.

Segmentation

Much of the corporate optimism from the start of the year has diminished, as the current administration is no longer perceived as "business friendly." Since February, business sentiment has been dropping with April experiencing the lowest point post-tariffs. This is not a "doom and gloom" scenario, and some industry segments continue to perform well. STR is not yet seeing evidence of increasing business event cancellations, but the focus is on event renewal, with multiple vendors opting to push to the second half of 2026 or even into 2027. The Group booking window remains shortened. Until the economic climate shifts, we expect booking windows to remain at this level.

An additional standout is Business Transient, which is currently driving performance in the upper-tier segments. Weekday demand and ADR growth continue to improve, with growth outpacing that of weekends and shoulder days. The current economic situation does pose potential downside risk here with business costs rising more unpredictably, and the current pause of interest rate cuts could have downward pressure on business travel.

International Inbound and Outbound

International inbound demand has started to slip as a result of global tariff implementation and the resultant impact on international travelers' perception of the U.S. Tourism Economics now forecasts substantial demand declines from Canada (estimated down 9% YoY for 2025), Mexico, EU countries, and APAC countries in 2025.

Year to date, international travel declines have been more impactful on both popular tourist destinations and markets that are heavily reliant on Canadian/Mexico travel. While these declines will persist through 2025 and into the first half of 2026, we expect that international inbound demand will begin to recover in 2026 as tensions begin to subside. Major sporting events like the FIFA World Cup and Olympics will not be affected, as they are "one-of-a-kind" events that should help bolster U.S. perception abroad next year. We expect U.S. inbound recovery to be delayed to 2029.

International outbound demand will remain strongest for upper-end travelers in the second half of 2025, but economic uncertainty will in some cases cause a substitution effect toward domestic travel. Flight bookings and air travel remain near peak levels, and resort bookings have been pacing ahead of last year, adding to the assumption that Americans are traveling, but preferring domestic destinations.

Long-Term Outlook

RevPAR growth has been shifted downward to +1.5% in 2026 and +1.8% in 2027 but remains above 2% for 2028-29, continuing a deceleration from the long-term compound annual growth rate (CAGR) of 3.1%. ADR remains the primary driver of performance, although growth rates trail inflation expectations. Demand will continue to grow.

The shifting landscape of the U.S. macroeconomic environment has added some downward pressure on the long-term outlook. Outside of those at the high-end of spending, consumers are expected to continue scrutinizing discretionary and travel spending. The revised demand outlook has potential to soften ADR growth. Desire for travel remains high across all segments, and we expect multiple areas to begin to normalize as conditions become more certain.