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ALIS 2025 HVS Takeaways: Slow and Steady Improvement

February 3, 2025 / *By HVS*

The hotel investment industry gathered in L.A. once again for the ALIS Conference last week. It was a fantastic opportunity to reconnect with colleagues, compare notes, and share predictions of what the future may bring. This event was preceded by the **HVS Forecast Webinar**, held Thursday, January 23. If you missed our webinar, you may watch the recording **here**.

2025 Deal Activity to Strengthen

Our conversations reflected continued, albeit somewhat cautious, optimism for the year ahead. Some predicted that transaction activity could be 25–30% higher than 2024 levels. The following factors will drive the increase in transaction volume:

- Larger size of deals (i.e., higher sales price). While limited-service and select-service assets have been the focus of transactions in the years following the pandemic, full-service hotel sales may take the spotlight in 2025.
- Sales of listings that have carried over from 2024, which was ultimately a year of low transaction activity.
- Brand-mandated renovations for 10- to 15-year-old properties. Owners may be unable or unwilling to fund the high cost of upgrades, which may motivate them to list the hotel.
- Continued strong buyer interest in extended-stay hotels, as well as hotels less than ten years old where a major PIP is not required.
- A higher number of expected loan maturities.

In the last two years, investors kept waiting for a significant decline (150+ bps) in interest rates, which never occurred. Moreover, it is clear that little movement in rates will likely occur this year. As a result, investors are now more comfortable with where the cost of debt has settled. Debt funds are becoming competitive, and a few groups are competing to win deals, so interest rates are coming down a bit when compared with levels six months ago.

Buyer and Seller Gap Will Narrow, with Cap Rates Hovering in the Low 8s

Buyer expectations on cap rates are 8.5% to 9.5% (for stabilized properties), and, not surprisingly, sellers will expect cap rates somewhat lower than this range.[1] With regards to hot markets, those that were favorable for the last few years (across the Sun Belt) will remain strong. However, San Francisco was mentioned as a market that private equity is trying to enter now that the recovery is more noticeable. San Diego was named multiple times as the most attractive market in California.

Performance Improvements Should Be Slow and Steady

General uncertainty persists regarding the effects of the new administration's policy on hotel performance and ultimately the transaction market. Analysts project 1–3% RevPAR growth in 2025, with potential upside driven by currency fluctuations and a rebound in corporate travel post-election. Additionally, natural disasters in more than ten markets are expected to boost occupancy growth in the first half of the year. The independent and economy hotel segments are anticipated to experience continued supply contraction, creating opportunities for investors.

Summary

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With rising labor costs, GOP growth has become the key benchmark for investors underwriting deals. Sun Belt markets, where costs are increasing by only 1–2%, are likely to outperform markets facing more substantial cost pressures. Overall, investors have adopted a more realistic market outlook, underwriting deals with a less optimistic lens than in previous years.

Looking Ahead

We look forward to gaining and sharing further insights at the Hunter Conference in March, where you will have a chance to connect with HVS again. To register for that conference, click **here**.

The next HVS webinar will be held on May 29, prior to the **NYU International Hospitality Investment Forum** —stay tuned for more information in the coming months!

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[1] Hotels that are not stabilized and have notable upside in improving operations and cash flow will likely trade at lower cap rates. Moreover, stabilized assets in gateway markets or high-value submarkets typically trade at cap rates well below the 8.0% to 9.0% range.