READY FOR TAKEOFF: WHY HOTEL REAL ESTATE INVESTMENT WILL BE REVITALIZED IN 2025

Hospitality Industry Insights

FEBRUARY 2025

READY FOR TAKEOFF:

WHY HOTEL REAL ESTATE INVESTMENT WILL BE REVITALIZED IN 2025

By ***Dexter E. Wood****, Senior Managing Director, The Plasencia Group*

While the recent ALIS Conference revealed mixed sentiments about the lodging transaction market, we at The Plasencia Group see encouraging signals ahead. We firmly believe that the lodging investment landscape is set to experience a transformative year in 2025 and is ready to take advantage of several economic and policy tailwinds. There are several factors that we believe will drive this resurgence in 2025.

1. A GROWING AND STABLE ECONOMY

The U.S. economy is expected to see a balanced expansion in 2025, marked by growth and stability driven by consumer spending, easing financial conditions, and productivity gains. These factors should foster a new wave of confidence among investors and consumers. The developing economic expansion will help ignite a vibrant real estate cycle that should accelerate the hotel transaction market in particular. Although uncertainty around trade policies could make some investors cautious, the net effect depends on how much costs might rise versus any economic growth spurred by the tariffs.

Stability in economic indicators like employment rates and inflation provides a backdrop for businesses to plan long-term investments without the fear of abrupt market shifts. This all supports a growing demand for commercial real estate, especially hotels. Notwithstanding the new Trump administration's fast-paced wave of executive orders, many lodging investors feel there is certainty that the economy will continue to improve. This is a change from the tone of the past four years.

2. PRO-BUSINESS POLICIES FROM THE NEW ADMINISTRATION

Under the new administration, the hotel real estate sector is poised to benefit from a renewed pro-business environment, especially from a president with deep ties to the real estate sector. Policies fostering foreign direct investment, regulatory streamlining, tax reforms, and a generally business-friendly climate are expected to continue to attract both domestic and international capital to the U.S. real estate sector. The simplification of regulatory processes could expedite project approvals, reducing delays and costs for developers. Historical precedents from Trump's previous term suggest that such policies can lead to a boom in commercial real estate investment activity. The fact that the President is a hotelier himself could bode well for the hospitality industry in particular.

3. EXPANDING AND MORE FAVORABLE LENDING ENVIRONMENT

The lending environment for hotel real estate reflects a complex but improving landscape shaped by recent macroeconomic shifts and improved and stabilizing interest rate expectations. After reduced involvement following the Federal Reserve's rate hikes starting in 2022, banks are beginning to re-enter the hotel lending space. Banks are adjusting strategies to compete with nonbank lenders (e.g., debt funds), which dominated hotel financing during the high-rate environment of 2022–2023. As banks ramp up activity, they increasingly compete with these alternative lenders and expand overall debt availability for hotel owners. Spreads have also tightened in recent months, as reflected in the CMBS market. Lower borrowing costs, tighter spreads, and the return of bank lending create opportunities to accelerate hotel transaction activity in 2025.

4. DRY POWDER READY FOR DEPLOYMENT

One of the most significant catalysts for the hotel real estate market in 2025 is the vast amount of "dry powder" – idle capital waiting on the sidelines. Funds from both domestic and international investors have been amassed, ready to be invested once the market rights itself. We observe that the amount of ready capital has reached unprecedented levels, with investors eager to dive into hotel opportunities particularly in markets showing consistent resilience and growth potential. Investors are anxious to deploy this capital at a time where economic conditions are favorable, interest rates are conducive, and policy supports business growth.

The convergence of a stable and growing economy, supportive government policies, an increasingly favorable financing environment, and unprecedented levels of uninvested capital creates a compelling opportunity for the hotel real estate sector to flourish. All of this bodes well for the slew of hotel owners who have strategically held assets through challenging times as conditions are finally ripening for meaningful transaction activity. Investors who position themselves strategically in early 2025 will capitalize on this alignment of positive factors, marking the year as a true inflection point in the hotel investment cycle.

For more valuable hospitality industry news and analysis, opt-in to our communications list: tpghotels.com/company-news. If The Plasencia Group may be of assistance at any point throughout the entire lifecycle of your hotel, resort, or portfolio investment, reach out to any one of our skilled investment advisors today to start the conversation.

About The Plasencia Group

In 1993, The Plasencia Group was formed to provide hotel and resort owners investment advisory services at a personal level. Over thirty-two years and hundreds of engagements later, we still have the privilege of making our clients successful with the passion, access, and certainty they've come to expect. Our firm offers investment sales, owner representation, development and renovation management, debt and equity sourcing, and advisory services to hotel and resort owners throughout North America.

Contact us today if our experienced advisory team can assist you in evaluating your current portfolio and strategizing for the future. We look forward to the opportunity to serve you.

(813) 932-1234
info@tpghotels.com
tpghotels.com