The new “norm” for hotels and Boston’s resiliency - by Jim Luchars

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“It’s the best year we have had since opening in 2016” said a general manager for one of our New York City hotels. “We are still waiting for a full recovery” said another general manager at a hotel in San Francisco. We are now more than two years removed from COVID and performance around the country is still mixed. Some markets have come roaring back with strong demand patterns and Average Daily Rate (ADR) achievement well above pre-pandemic levels. New York City, at the top of this list, is somewhat of an anomaly as demand recovery has been diverse and robust with more than ten percent of room inventory permanently offline as a result of migrant and homeless housing programs. Overall, nationally, leisure demand remains strong in many markets and mid-week corporate and group trends vary greatly. There is an expectation that as more businesses prioritize return-to-office mandates and travel spending, midweek demand will increase but this really has to be measured market by market and the new “norm” is not four or five days per week in the office.

While not as strong as New York City, Boston has recovered well from the pandemic and 2024 was evidence of this trend. According to CoStar, as of November year-to-date 2024, the market recorded a RevPAR increase of 7.6% year over year. On a trailing twelve month basis, occupancy was 74.1% and ADR $233.56, equating to RevPAR of $172.24, a historic peak. The market has benefitted from healthy demand from a combination of different segments: leisure, group and corporate transient. The 2024 summer/fall peak season held up despite many US travelers going overseas in July and August. Fall, in particular, benefitted from an incredible stretch of weather with almost no rain in September and October. The Celtics championship run in May and June also boosted city occupancy, particularly around TD Garden. Nationally, RevPAR growth in 2024 was mostly driven by ADR increases while Boston RevPAR growth was balanced by both occupancy (3.2%) and ADR (3.7%) growth. Group came back strong in 2024 with city-wide events were up 4.7% from 2023, providing more opportunities for hoteliers to push ADR during compression/sellout periods. It is worth noting that the market has benefitted from a reduction of 2.1% in supply due to temporary/permanent conversions to shelters and subsidized housing.

January 2025 is starting a little soft for Boston with the week following New Years slow but most operators are optimistic about the remainder of the year with mid-week corporate demand holding and the group pace still strong despite the upcoming renovation of the Hynes Convention Center. Another positive note for the market is the strong performance of the suburban markets in 2024. According to Co-Star, on a trailing twelve month basis through November, Cambridge/Waltham, Dedham/Marlborough and Woburn/Northwest recorded RevPAR increases of 6.6%, 8.5% and 7.3% in 2024. This performance is encouraging given the high vacancy in suburban office. These markets also benefitted from strong compression from the city in 2024, pushing demand to overflow locations. The Co-Star forecast for Boston for 2025 is 74.5% occupancy and $233.71 ADR, reflecting a 1.1% RevPAR increase from 2024. This is modest increase is driven by the expectations of a softer first quarter and some non-recurring events that drove demand in 2025. Fortunately, there is very little new supply in the pipeline and the cost of new construction and interest rates are still very high, making it hard to underwrite new projects in the city and surrounding suburbs. Boston continues to be a very high barrier market and this is helping sustain very strong RevPAR performance.

Nationally, hotel capital markets are expected to be a lot more active in 2025. Several prominent brokerage firms are bringing out a lot of product in January and the “gap” between buyers and sellers appears to be narrowing. Many owners have debt maturities and other pressure to transact and many buyers have capital that has been raised and needs to be deployed. We are also past the uncertainty of the election and financing costs, while still high, have improved and stabilized. Boston remains a top target for acquisitions given the RevPAR performance and aforementioned barriers to entry. The few high quality assets that came to market in 2024 have attracted multiple bidders and premium pricing. Investors are bullish on Boston’s long-term outlook and this will continue through 2025.

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Prior to joining Stonebridge, Luchars was a principal at AEW Capital Management overseeing all hotel investments.

Luchars has over 25 years of experience in the hotel business and commercial real estate. Founded in 1991 by Navin Dimond, Stonebridge is a privately owned, innovative hotel development and hospitality management company. They manage a portfolio of 45 hotels across the United States, and provide investor opportunities, hotel development services, hotel management services, and hospitality career opportunities to its partners and associates. Currently, their hotel portfolio is comprised of 7,000 guest rooms across multiple select-service, extended stay, mid-scale, and full-service hotel brands located in primary and secondary markets.