

Greater Houston Lodging Market: On the Mend

February 14, 2023 / By Bunmi Oyinloye



The oil and gas industry remains Greater Houston's primary economic anchor, defining the market's business cycle and the area's economic growth path. The hotel market began to stabilize in 2019 following declines in lodging demand as a result of the volatility of the oil and gas markets, and Greater Houston experienced a steep decline in lodging demand in 2020 given the onset of the COVID-19 pandemic. Recent data illustrate a steady return to pre-pandemic levels, supported by increasing business relocations, ongoing economic development, and the market's reputation as a global hub for energy, health care, and aerospace.

The historical performance and our forecast of Greater Houston's lodging metrics are shown below.

Houston 2023–2025 Forecast

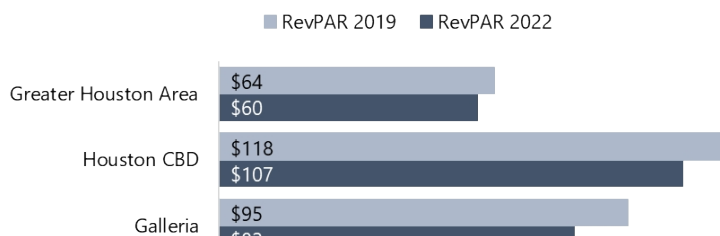
	Occupancy	% of 2019	ADR	% Chg	% of 2019	RevPAR	% Chg	% of 2019
2019	63.0 %		\$102			\$64		
2020	42.2	67.0 %	81	-20.2 %	79.8 %	34	-46.9 %	53.1 %
2021	54.6	86.7	91	12.5	89.7	50	47.1	78.1
2022	57.6	91.4	104	13.7	102.1	60	20.0	93.8
2023	60.5	96.0	108	4.0	106.1	65	9.0	102.2
2024	63.0	100.0	111	3.0	109.3	70	7.0	109.4
2025	64.0	101.6	115	3.0	112.6	73	4.9	114.7

Source: STR (Historical Years), HVS (Forecast)

The market's RevPAR is on pace for a full recovery to 2019 levels in 2023 as inflation continues to bolster average daily rate (ADR) growth. Occupancy is expected to recover in 2024, hampered by supply increases. Commercial demand and group business have historically been two of the strongest segments in the Houston market as a result of the strength of the oil and gas, aerospace and aviation, and medical industries, as well as the presence of the **Port of Houston** and the **George R. Brown Convention Center**. Leisure demand supported the market's recovery through the first half of 2021, while corporate and group demand gradually improved in 2022 as companies resumed travel.

Of the seven submarkets illustrated below, the Medical Center submarket reflects the fastest RevPAR improvement, having recovered to 97% of its 2019 RevPAR levels. The submarket benefited from the quick rebound of leisure and business/healthcare travel. The Galleria submarket was 13% below 2019 levels as of year-end 2022, hindered by the slower return of international business travel.

RevPAR Performance by Submarket—2022 vs. 2019



Summary

Hotels in the Houston area faced a significant RevPAR decline in 2020, and at the beginning of 2023, the market is again contending with uncertainty surrounding rising inflation, risk of a potential economic slowdown, and volatility in its largest industry. In this article, we take a look at Greater Houston lodging recovery thus far and the outlook for the future.

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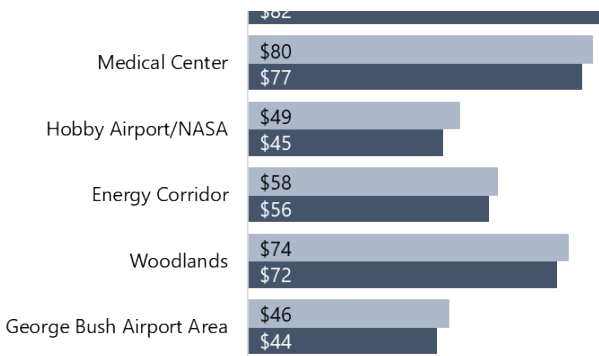
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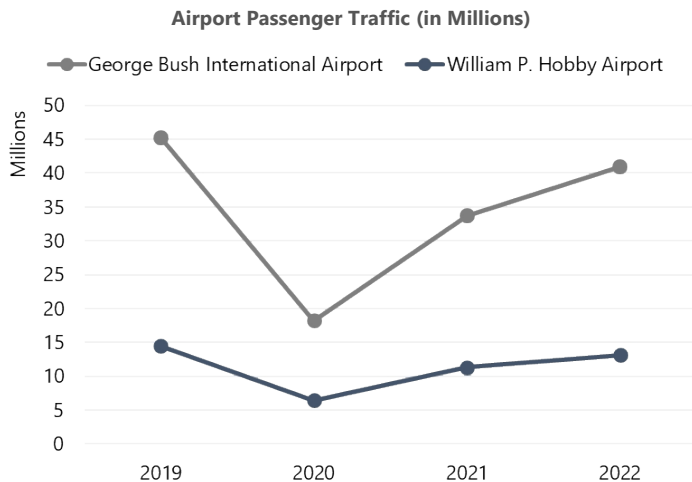
Source: STR

George R. Brown Convention Center

According to **Houston First**, meeting demand was roughly 80% of 2019 levels by year-end 2022, bolstered by the return of larger events and citywide meetings and conventions, such as the **Offshore Technology Conference** and events for the **American Association of Physicists in Medicine** and **Walmart Inc.** Houston will host the **NCAA Final Four** in March 2023, which will boost demand within this segment. Group demand is expected to continue to grow over the next few years, likely outpacing 2019 levels by 2024.

Airline Travel Trends

Air travel recovery is trending similar to the lodging demand rebound, as shown on the chart below. Following record-breaking passenger traffic numbers at both **Houston-area airports** in 2019, air travel declined significantly in 2020. A recovery of passenger traffic has begun at both airports, and traffic for 2022 reached approximately 90% of 2019 levels. Growth in 2022 is attributed to the return of business and international travel. The ongoing \$1.36-billion **IAH Terminal Redevelopment Program** at **George Bush Intercontinental Airport** and the \$250-million terminal expansion and upgrade at **William P. Hobby Airport** are expected to accommodate passenger traffic growth and resolve challenges with baggage handling, passenger service, and roadway traffic at each facility.



Sources: Respective Airport Authorities

Economic Development Projects

Boasting 24 **Fortune 500** headquarters in the metro area following the relocation of **NRG Energy** in 2021 and **Hewlett Packard Enterprise (HPE)** headquarters in 2022, Houston continues to attract new businesses with its availability of talent, favorable business and regulatory climate, and tax policies. The number of Fortune 500 headquarters will increase to 25 when **ExxonMobil** completes its relocation in 2023. In 2022, **Archaea Energy**, **CDI Engineering Solutions**, **Dark Pulse**, and **Noodoe** announced plans to relocate their headquarters to the area.

Texas Medical Center's **TMC Helix Park**, a 37-acre biomedical research campus, is under construction. The **Baylor College of Medicine** is planned to occupy one of the research buildings once the park is complete in 2023. Furthermore, **Levit Green**, a 53-acre mixed-use life-sciences district, is under construction next to the TMC. These healthcare developments will reinforce Houston's position as the world's largest medical hub.

Furthermore, Houston's aerospace and aviation industry is expanding, with **Axiom Space**, **Collins Aerospace**, and **Intuitive Machines** scheduled to open new facilities at Ellington Field and create new jobs by 2024.

New Supply

New supply is expected to limit overall occupancy growth in the near term, as multiple hotel projects that were delayed by the onset of the pandemic have recently been completed or are nearing completion.

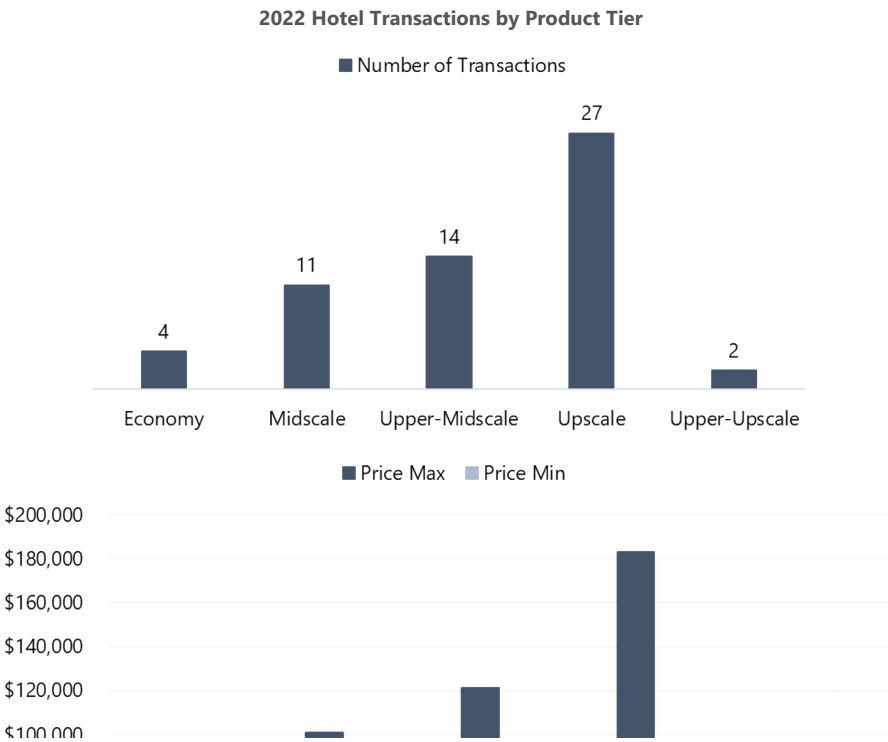
In June 2022, the **Holiday Inn Express & Suites** opened in Downtown Houston, and roughly 1,600 new guestrooms are planned to be added to the market in 2023. Notable projects under construction and expected to open in 2023 include the **Moxy Houston Downtown**, **Staybridge Suites Cypress Crossing**, dual-branded **Hyatt Place** and **Hyatt House Texas Medical District**, and **Thompson Hotel** at **The Allen**.

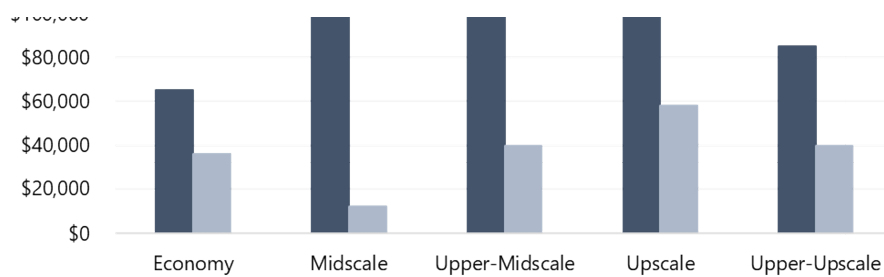
Notable developments proposed for the market include the **Hotel Saint Augustine Montrose**, **Great Wolf Lodge Webster**, **W Houston Downtown**, and dual-branded **Home2 Suites** and **Tru by Hilton Houston Downtown**.

Hotel Transactions

Despite depressed RevPAR levels, our survey of hotel sales in the market area in the past twelve months reflects 19 multi-asset portfolio transactions valued at a total of over \$186 million, with an average price per key of \$85,000. There were 39 individual-asset transactions valued at more than \$353 million total. These deals comprised approximately 4,700 hotel rooms with an average price per key of \$78,000. In comparison, 54 individual asset sales totaling 6,200 guestrooms were reported in 2021, valued at a total of \$460 million and \$69,000 per room.

The two most significant transactions in the market in 2022 were the **AC Hotel by Marriott Houston Downtown**, which opened in 2019 and was sold as part of a 23-property portfolio, and the **Aloft Houston Downtown**, which opened in 2016.





Source: HVS

In 2021 and the first half of 2022, buyers were eager to capitalize on the industry's recovery and the availability of debt; however, the enthusiasm has been dampened by inflationary pressures and interest rate hikes. Limited-service and extended-stay hotels continue to garner the highest level of interest, as these properties generally carry lower risk than full-service hotels.

Conclusion

We are confident that Greater Houston will continue this upward path to recovery. However, the volatility of oil and gas prices, as well as the ongoing rise in inflation and interest rates, are potential threats to the market's near-term growth. We continue to watch the factors affecting lodging in the market area, and our regular consulting assignments in the area allow us to remain informed about the condition of the market.

For more information, contact **Bunmi Oyinloye** or **Shannon Sampson** of the **HVS Houston** office.

About Bunmi Oyinloye



Bunmi Oyinloye, a Director with HVS Houston, conducts appraisals and feasibility studies for hotels throughout Texas and the Gulf Coast region. Bunmi formerly worked in accounting and guest service roles at the Sheraton Dallas North hotel and as a Revenue Specialist for Hilton Worldwide, analyzing the performance of Hilton-branded properties and implementing strategies to increase room nights and revenue. Bunmi earned a master's degree in Hospitality Management, specializing in Finance, from the University of Houston's Conrad N. Hilton College of Hotel and Restaurant Management. Contact

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