The Linneman Letter

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Hotel Market Close-up: Washington, D.C. MSA

Overview and Economy. The Washington, D.C. MSA is the seventh largest in the U.S., with a population of 6.4 million. Its hotel market consists of 115,000 rooms in 732 hotels, according to Lodging Econometrics. At the end of March, the MSA had 1,785 hotel rooms (1.6% of the stock) across ten properties under construction. According to CoStar/STR, the 12-month rolling average hotel occupancy rate in Washington, D.C. was 68% in the first quarter of 2025, up from a low of 32.8% in the first quarter of 2021. Real (2024 dollars) running 12-month revenue per available room (RevPAR) was $126.57 in March 2025, compared to $121.81 the prior year and $138.41 in February 2020. The real 12-month average daily rate (ADR) increased by 2.9% over the past year and sits at $186.41 per key. The outlook for the MSA hotel market shows signs of improvement, with hotel bookings and air travel on the rise.

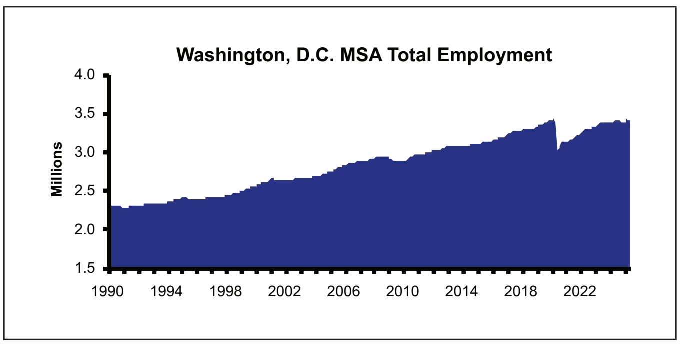


figure 1

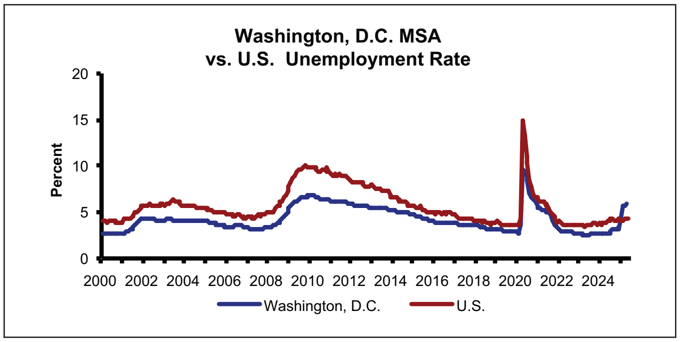
Between February and April 2020, Payroll Survey employment in the MSA declined by 410,000 jobs (12.1%) and has subsequently only added 405,000 jobs (13.4%) through April 2025 (latest available). Total Payroll Survey employment stood at 3.4 million jobs in the MSA in April. Fortune 500 companies headquartered in the MSA include Danaher, Marriott International, Capital One, and Fannie Mae.

Eight out of ten major employment sectors in the MSA saw year-over-year growth through April 2025, including other services (0.9%), education and health services (3.4%), and mining, logging, and construction (6.4%). The sectors with a year-over-year decrease were professional and business services (-1.1%) and information (-0.5%). Since its peak in January 2025, Federal employment fell by 48,000 (1.6%) through May 2025. The industries with the largest employment in the MSA are professional and business services (23.6% share); government (21.4%); and education and health services (14.6%).

In previous issues, we have discussed a covariance analysis that was first published in the *Wharton Real Estate Review* (spring 2007) and is regularly updated in this publication. The analysis examines how various economic indicators behave in individual metropolitan areas based on national economic changes. Specifically, for each MSA, we estimated an equation, which summarizes how a 100-basis point (bp) change in national employment affects the local indicator. The equation consists of a constant ("alpha") for each market and a "beta," which is a multiplier applied to the national percent change in employment. The alpha indicates MSA growth that is independent of national growth, so if there is no national job growth, alpha is the expected annual percentage change in MSA employment. The beta for the U.S., by definition, is equal to 1.0. An MSA with a beta of 1.0 registers (on average) an increase of 100 bps in employment growth plus alpha when national employment rises by 100 bps. A beta that is less than 1.0 indicates that the MSA does not boom (or bust) to as great an extent (around its trend) as the national economy, while a beta of greater than 1.0 indicates that such an MSA experiences swings of greater magnitude than the percentage changes at the national level.

With an employment beta of 0.83, employment in the Washington, D.C. MSA responds with a 17% lower magnitude than national employment changes around its trend. The MSA has an alpha of 0.37, indicating that local employment is expected to increase by 0.37% when U.S. job growth is zero. The interaction between Washington, D.C.'s alpha and beta results in a breakeven point of -0.44, indicating that the MSA is expected to have positive annual employment growth as long as the change in U.S. employment is at least -0.44%. The model's R-squared statistic of 0.75 indicates that the forecasting model for Washington, D.C. explains future job growth with a 75% "fit."

Our model projected that the MSA would lose 4.5% of jobs given that national employment declined by 6.3% during the Financial Crisis. The MSA performed better than our projection, with a loss of 2.4% of jobs. In the subsequent recovery, U.S. employment grew 17.4% from the Financial Crisis bottom through February 2020, while metro employment increased



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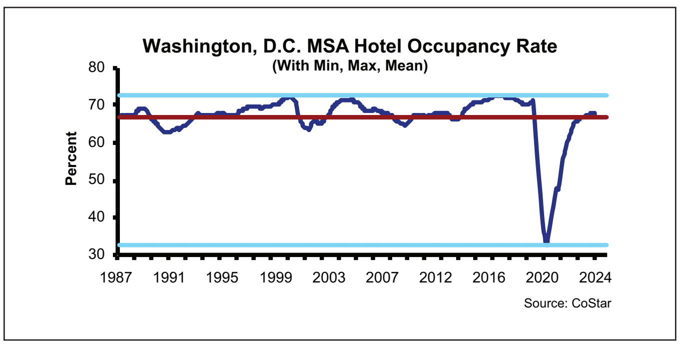

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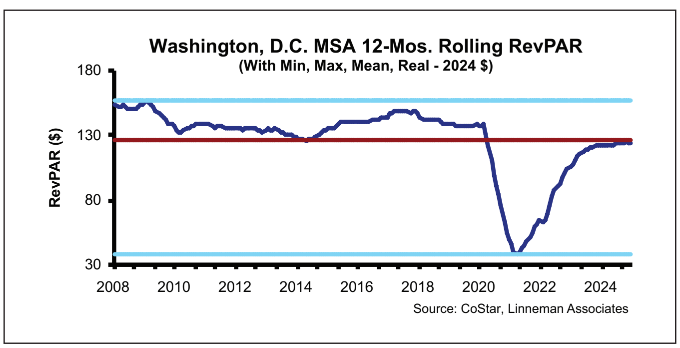

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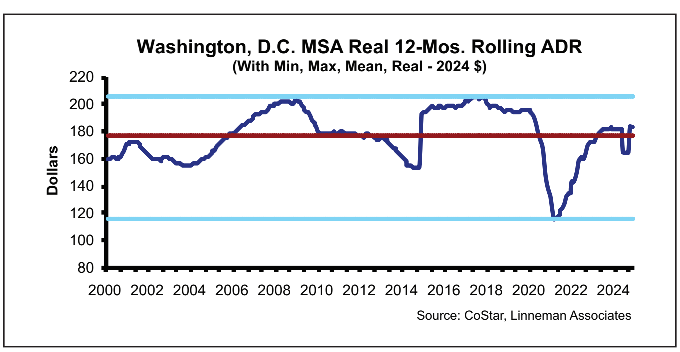


figure 5

18.8% over the same period, in line with our prediction of 18.5%. Between February and April 2020, the U.S. lost 14.4% of jobs, while the MSA lost 12.1%. As the economy reopened, U.S. employment increased by 22.3% (through May 2025), implying corresponding growth of 20.5% in the MSA, far exceeding the actual growth of 13.4% through April 2025 (latest available).

The MSA unemployment rate reached 6.9% in February 2010 and steadily declined during the Financial Crisis recovery, reaching 2.7% in February 2020. In comparison, the national unemployment rate peaked at 10% in September 2009 and declined by 640 bps, to 3.6% through January 2020. In the wake of the shutdown, the official U.S. and MSA unemployment rates reached 14.4% and 9.7%, respectively, in April 2020. The MSA's unemployment rate recovered to 3.2% in December 2024 before increasing to 6% in April 2025 (latest available) due to cuts in federal employment by the Trump administration. Meanwhile, the official U.S. unemployment rate stood at 4.2% in May 2025.

Hotel Market Statistics. The MSA's 12-month rolling occupancy rate stood at 71.2% in February 2020 but dropped to 32.6% in February 2021. At 68% in March 2025, Washington, D.C.'s hotel occupancy is showing considerable improvement but remains below its pre-pandemic level. It is 130 bps above the MSA's long-term average (since 1988) occupancy of 66.7%. The MSA's thirty-year high of 72.7% was seen in 2017. The U.S. average occupancy rate was 65.9% in February 2020 and stood at 63.1% in March 2025.

Real 12-month rolling RevPAR in the MSA stood at $126.57 in March 2025, a net increase of about $4.78 per key (3.9%) compared to a year earlier and in line with the long-term average. The current level is 19.1% below the all-time high of $156.39. The real 12-month rolling ADR in the MSA was $186.41 in March 2025, an increase of $5.22 per key (2.9%) over the prior year. The MSA's ADR is 9.4% below its all-time high. By comparison, real U.S. RevPAR and ADR were $100.72 and $159.66 per key, respectively, in March 2025, reflecting year-over-year increases of 2.4% and 1.8%.

Visitor Trends. Washington, D.C. is among the most visited cities in the U.S., with almost 21.9 million visitors in 2023 (latest available), 2.2 million of whom were international. Attractions in the city are largely defined by the 2-mile long National Mall — which includes the Lincoln Memorial, Washington

Monument, White House, Capitol Building, as well as the Cherry Blossom Festival from late March to early April. Washington, D.C. is home to several large sports venues, including Northwest Stadium (Landover, MD home to the Washington Commanders), Nationals Park, and Capital One Arena (home to the NBA's Washington Wizards and NHL's Washington Capitals).

Investment and Sales. Real 12-month rolling hotel sales volume in the MSA stood at $2.4 billion through the first quarter of 2025, about $916 million (61.6%) lower than the first-quarter 2025 level. The latest real sales volume is 81.2% below the all-time high of $12.8 billion and 57.5% below the long-term average of $5.7 billion. However, it has hit bottom and moving upwards.

In the first quarter of 2025, the average CoStar cap rate in the Washington, D.C. hotel market was 9%, 130 bps higher than the historical mean of 7.7% and down 30 bps from a year earlier.

In the first quarter of 2025, the four-quarter moving average real price (2024 dollars) per hotel room in the MSA stood at $207,000, or about 1.3% above its long-term average (since 2000) of $204,000 per room. Local hotel property pricing increased by 22.4% over the year.

Major buyers of Washington, D.C. hotel properties over the last five years include: VICI Properties ($17.4 billion in acquisitions); Blackstone ($6.6 billion); Host Hotels & Resorts ($3.3 billion); Gencom ($2.7 billion); and Realty Income Corporation ($2.65 billion).

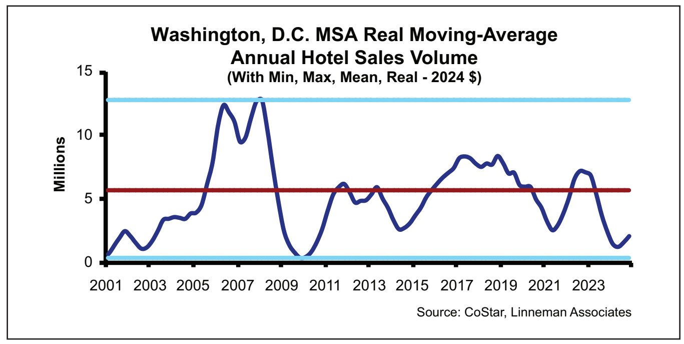
Major sellers of Washington, D.C. hotel properties over the last five years include: MGM Growth Properties ($16.4 billion in dispositions); Brookfield Corporation ($7.7 billion); Blackstone ($5.2 billion); Hyatt Corporation, and Dubai World ($1.9 billion each).

Development and Construction Pipeline. According to Lodging Econometrics, seven new hotels (representing over 1,000 rooms) were completed in the MSA in 2024. This compares to the four hotels (711 rooms) that were completed in 2023. At the end of the first quarter of 2025, there were 15 hotels (2,938 rooms) under construction in the MSA, according to CoStar. In comparison, Lodging Econometrics reported in the first quarter of 2025 that 1,785 rooms over ten projects were under construction, 2,534 rooms in 21 projects would be started in the next 12 months, and 4,870 rooms in 40 projects were in early planning.

For submarkets summary, see Figure 9.

Opportunities and Challenges. The Washington, D.C. MSA is home to 20 Fortune 500 companies. The Government Sponsored Enterprises of Fannie Mae and Freddie Mac are at the top of the list at number 27 and 36, respectively, with others on the Fortune 500 including Boeing, Lockheed Martin, Capital One Financial, and Marriott International.

In 2024, 1,000 keys opened in the MSA, along with over 550 in the first quarter of 2025, which was the fastest quarterly growth since late 2022. The effect of President Trump's second term, however, may soon halt this growth as federal worker layoffs and government



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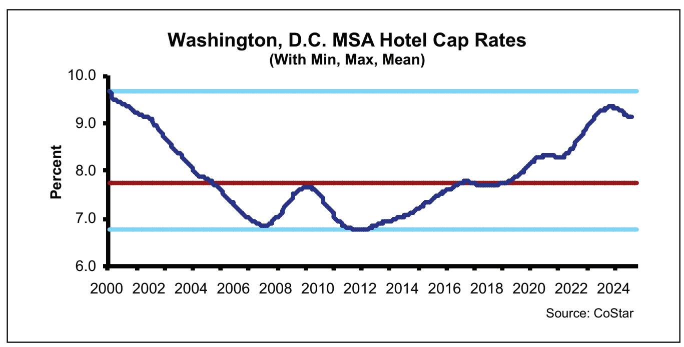

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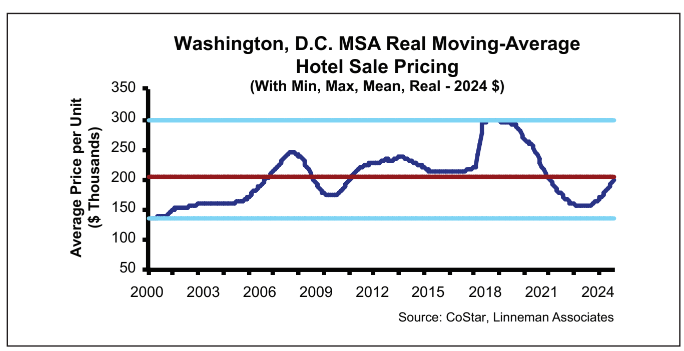


figure 8

Washington, D.C. MSA Hotel Submarket Summary 1Q25

Submarket	Inventory Rooms	Occupancy (%)	Real RevPAR ($)	Rooms Under Construction	Real ADR ($)
Alexandria	8,617	65.6	103.88	94	158.40
Arlington	9,462	73.0	144.20	338	197.51
Bethesda/College Park	6,545	64.8	102.16	0	157.77
Dulles Airport Area	10,811	72.6	96.71	492	133.12
Fairfax/Tysons Corner	8,656	68.9	112.96	0	163.87
Frederick/Rockville	8,349	63.4	77.62	0	122.49
I-95 Fredericksburg	9,052	61.2	62.42	1,007	101.93
Maryland South/East	11,447	62.5	98.81	216	158.13
Suburban Virginia Area	6,110	63.9	98.37	256	154.04
Washington DC CBD	35,824	71.5	194.34	628	271.75

Source: CoStar/STR, Linneman Associates

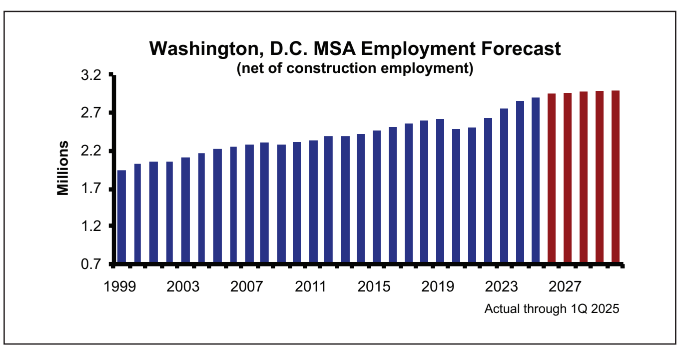
figure 9

and government-related business undoubtedly take its toll on the area's conference center space and travel sector. For example, the PM Hotel Group, which owns approximately 2,700 keys in the city, has seen large-scale group contracts ranging from $30,000 to $50,000 cancelled as both agency layoffs and uncertainty increases amongst non-profits and government contractors.

Although still in the early innings, the Washington Commanders ownership is making proposals for a new stadium at the site of the old Robert F. Kennedy stadium (which they vacated in 1997 for their current home in Landover, MD). A proposed $3.7 billion redevelopment would have $2.7 billion funded by the ownership group, with the extra $1 billion coming from the District's capital budget. It would feature a 65,000-capacity stadium that takes up just over 10% of the 180-acre site along the Anacostia river. In addition to the stadium, the first proposal calls for 5,000-6,000 housing units with about 30% of those units affordable, and 30% for parks and open space.

The project is made possible by the Congressional D.C. Robert F. Kennedy Memorial Stadium Campus Revitalization Act of 2024, which gave control of the 180 acres to the District of Columbia. At the moment, the proposal calls for a 2026 groundbreaking and a 2030 unveiling. The final plan is likely to differ significantly from the proposal, however, as the team will take each development parcel through the D.C. 2050 Comprehensive Plan for community input, and they need seven of twelve city council votes before the team's exclusive negotiation window expires in the summer.

Cuts in both the federal workforce and private contractors are driving economic uncertainty within the D.C. MSA and beyond. A recent report by the D.C.



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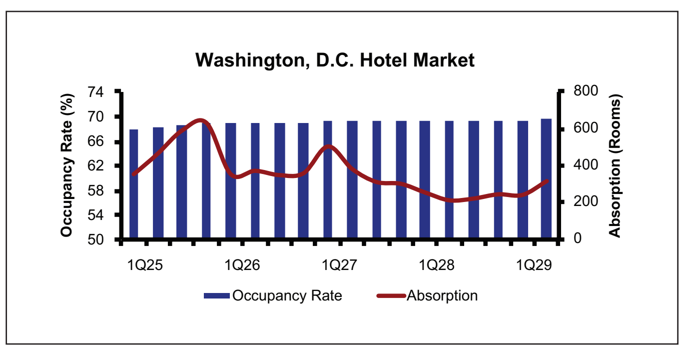

figure 11

Policy Center details Federal Contracts as "a more significant driver of employment growth than direct federal jobs." The report further argued that the MSA will be disproportionately affected by cuts to federal contracting. 29 of the top 100 contractors by dollars obligated are headquartered in the D.C. MSA, and they received nearly 33% of all federal contract dollars. In contrast, the 71 top contractors headquartered outside the MSA received only 25% of all dollars awarded, meaning D.C. contractors are receiving significantly more money than average contractors.

Outlook. Our statistical employment forecasts are net of construction jobs due to the volatility and short-term nature of that sector. We forecast that the MSA will add about 274,000 non-construction jobs (about 55,000 per year) between 2025 and 2030. We expect that the first-quarter 2025 occupancy rate of 68% will rise to 70.9% by year-end 2030.