

The Diverse Factors Driving the Austin Lodging Market

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The Austin area has experienced unprecedented growth and success in recent years. The region boasts a strong economic framework and diverse demand generators that typically allow the city’s lodging market to recover quickly following any dips or slumps. Austin is one of the largest technology hubs in the country and is home to **The University of Texas at Austin (UT Austin)**, as well as numerous state and federal government entities, which help the city weather recessions relatively well. Furthermore, the area is one of the most popular leisure destinations in the state. Add to that a robust convention and citywide event calendar that includes the **South by Southwest Music, Film, and Interactive Conference and Festival (SXSW); Austin City Limits Festival**; and **Formula One Racing**, and it becomes easy to see why Austin is so attractive to hotel investors.



The high quality of life also contributes to the area’s rapidly expanding population and increasingly diverse business landscape, despite the negative effects of the COVID-19 pandemic. According to the **Opportunity Austin Annual Report 2022**, approximately 100 companies announced expansions and 64 new companies relocated to the region, creating a total of 14,292 new jobs. In the lodging market, sales prices for hotels increased in the city post-pandemic, led by two transactions in the Central Business District that surpassed \$700,000 per key: the **Hotel Van Zandt** and the **Austin Proper Hotel**. **McWhinney Real Estate Services, Inc.**, the buyer of the Austin Proper, also opened the 246-key **Hyatt Centric** in February 2023. Other new supply in the downtown area includes **The Loren at Lady Bird Lake**, which opened in October 2022, and the **citizenM**, which is slated to open during the summer of 2023. Several other upscale projects are in various stages of development.

After a slow recovery in 2021, Austin’s lodging metrics returned to form in 2022, with RevPAR surpassing the 2019 level. However, as in many markets across the country, the demand mix has shifted somewhat in response to the pandemic. An interesting change is the uptick in “bleisure” travel, where business travelers extend their stays to incorporate leisure activities. Austin’s designation as the “Live Music Capital of the World,” its Hill Country location, and its variety of shopping, dining, and entertainment districts should allow local hoteliers to

Summary

Austin has enjoyed a strong and resilient lodging market since the Great Recession. But why? This article explores the lodging demand drivers that make Austin one of the most attractive hotel markets in the U.S.

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capitalize on this growing travel trend. These amenities also contribute to Austin's ability to capture a significant amount of meeting and group demand.

Commercial demand is anchored by state and federal government entities, as well as UT Austin. As the state capital, Austin is home to more than 50 state agencies, the **Texas Legislature**, **Office of the Governor**, and the **Supreme Court of Texas**. The federal presence includes the **United States Federal Courthouse**, the **U.S. Army Futures Command**, and one of three **IRS** Tax Processing Centers, among other federal agencies. UT Austin has one of the country's largest single-campus enrollments and is also a center for academic research. The J.J. Pickle Research Campus is located in northwest Austin and sponsors such projects as the world's sixth-fastest supercomputer, a nuclear reactor, a Mach-5 wind tunnel, and one of the largest cleanrooms in the country.

Private employment is led by the technology industry, with nearly 200,000 workers in the metro area. Roughly half are employed by 20 private companies, such as **Dell Technologies**, **Amazon**, and **Tesla**. Notably, none of the layoffs announced by the global high-tech companies have affected the local high-tech workforce as of this writing.

Additionally, local sports attract leisure demand throughout the year. Sports activities at UT Austin are not limited to collegiate sports; the University hosts Texas high school playoffs and state championships, the **Texas Relays**, and **Olympic** qualifiers. In addition to the **F1 Grand Prix**, **MotoGP Grand Prix**, and **NASCAR Cup Series** races held at **Circuit of The Americas**, **Austin FC** (professional soccer) opened the new **Q2 Stadium** in 2021. Additionally, the multi-purpose **Moody Center** opened in 2022 and was designed specifically to host concerts. Moody is also home to the **Texas Longhorns** men's and women's basketball teams.

Many of Austin's citywide events are leisure-focused, and event attendance returned to pre-pandemic levels in 2022, except for SXSW. Organizers attributed the lagging attendance of SXSW to the addition of a substantial online component aimed at international audiences who could not attend that year. The following chart illustrates the attendance levels of some of the bigger events held in 2022.

| Events in Austin | |
|--|-----------------|
| Event | 2022 Attendance |
| Rodeo Austin | 455,758 |
| Austin City Limits | 450,000 |
| Formula 1 US Grand Prix | 441,000 |
| Austin Trail of Lights | 400,000 |
| Pecan Street Festival | 400,000 |
| South by Southwest Conference & Festivals | 278,681 |
| NASCAR Cup Series | 139,600 |
| MotoGP Red Bull Grand Prix of The Americas | 102,509 |
| Moontower Comedy Festival | 50,000 |
| Austin Film Festival | 30,727 |

Source: Austin Business Journal

So, not only does Austin enjoy a diverse demand base among all three market segments (commercial, meeting and group, leisure), but the city also benefits from diversity within the segments. For instance, commercial room nights are generated by government entities, high-tech firms, and education and research entities. Moreover, the city is able to accommodate multiple large events at once. Two of the biggest citywide events, **Rodeo Austin** and **South by Southwest**, overlapped by nine days in 2023.

National and international media consistently give Austin high marks on surveys given the city's vibrant, entrepreneurial business climate and high quality of life. For example, in January 2023, **WalletHub** listed Austin as the Number Two Best Metro Area for STEM Professionals, **TripAdvisor** ranked Austin among the Top 25 Most Popular U.S. Destinations, and **PitchBook** reported that the city is among the top-ten metro areas for venture capital investment. Given these accolades and the resiliency of the market's demand generators, the Austin area will continue to support additional hotel investment.

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About **Shannon L. Sampson**



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