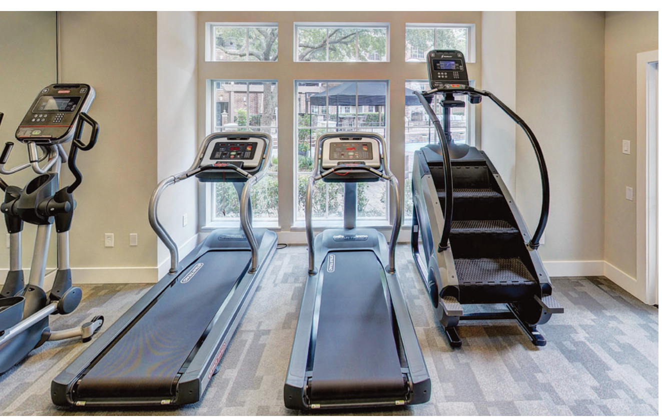

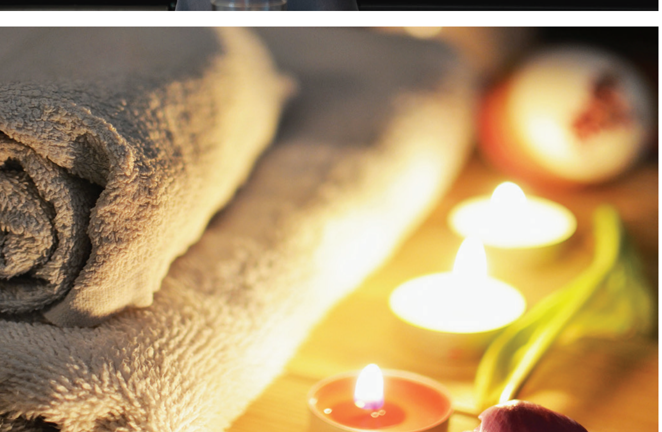

U.S. Hotel Industry Outlook

2025

Midyear Report

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Hoteliers meet continued uncertainty head on and are in for the long haul

Hotel leaders get comfortable with the unknown, supported by improved operating models, new technology and more effective investing strategies.

1%

U.S. hotel RevPAR is anticipated to grow **1%** year-over-year for full-year 2025 thanks to a **2%** increase in rate and a **1%** drop in overall demand.

Source: Kalibri

Heading into 2025, consumers and business owners were hopeful that the positive gains in occupancy and rate over the past few years would put the industry on a clearer path for the future, but "uncertainty" remains the reigning trend in 2025. Following a year of tepid stability, hotel owners and operators continue to contend with weakening consumer confidence as prices remain high and show no sign of dropping. Consumers have less discretionary spending overall, and some experts believe the real trends are just beginning to manifest.

According to industry analysis from Horwath HTL, households are watching their budgets today, even regarding aspirational activities such as travel. Lower and mid-tier segments have been hit hardest, with fewer trips, shorter stays and higher levels of price sensitivity causing previously adventurous travelers to become deal seekers. These trends negatively impact loyalty programs and even direct booking bonuses if the price isn't right. Furthermore, Brian Younge, managing partner, Horwath HTL's valuation advisory group, said headlines related to tariffs and other concerns are also having an impact on travel, though not as overtly.

"Tariff discussions are adding another layer of complexity when analyzing today's market," Younge said. "Hotels today are not necessarily recording widespread cancellations as a result of the tariffs. Instead, they are creating hesitation and delaying bookings, especially for families and small businesses."

Sameer Nair, SVP, equity asset management, Peachtree Hotel Group, said the first few months of 2025 have been a wake-up call for some who expected the economy to continue booming. "With the arrival of a new administration, many had a lot of hope and optimism from the business community about bringing out a brighter side of the economy," he said. "We are at the midpoint of the year and, looking back, our results are not as rosy as some were led to expect from a hospitality perspective."

Depending on the location of your property, this could be a significant concern. Gateway cities and markets that draw travelers from Canada are feeling the most significant disruption from recent statements made by U.S. government officials. Operators across these markets are waiting for the rest of the year to play out before fully adjusting their operations strategy, which may be wise, as some news of a retraction in travel may appear exaggerated.

According to Cindy Estis Green, CEO/cofounder, Kalibri, the industry has seen a modest reduction in total bookings as a result of ongoing uncertainty but, so far, only government travel has been severely impacted, with a lesser reduction in corporate and Rack/BAR. As a result, the majority of hoteliers are left wondering if the current dip in bookings is a temporary speed bump or a sign of bigger things to come.

The U.S. is also posting positive, but minimal, growth in RevPAR to offset some of today's uncertainty. Data from Kalibri still shows an anticipated 1% increase in U.S. RevPAR for full-year 2025 thanks to a 2% increase in rate and a 1% decrease in demand.

"Rates provided the lift behind the post-pandemic recovery, but the demand patterns are changing. Average rates are just not expected to grow the way they have over the past few years," Estis Green said. "Rate growth was already slowing before federal policy and government funding cuts, and now the industry has to wait out a period of persistent uncertainty. Short-term RevPAR growth depends largely on continued rate growth, and if rates decline, our forecast will likely follow suit."

Analysts across the industry forecast a long-term recovery period for hospitality characterized by further disruption, partly due to increased competition between segments. As consumer prices continue to rise and guests are asked to pay more for guestrooms each night while looking for greater value, it becomes more difficult to justify purchasing a room on the lower rungs of the chain scale when there is not much of a difference in rate. American consumers have grown tired of hearing cost-cutting tips and suggestions for balancing their budget and are now just looking for a good deal wherever they can find one.

At this point, hoteliers are well-versed in reacting to a shapeshifting market and have adopted new technology, staffing and operating strategies to become more nimble and reactive. It's potentially because of these investments and commitments to resilience that the industry shows no sign of slowing down new construction. According to JP Ford, SVP/director, global business development, Lodging Econometrics, the hospitality industry's development pipeline at the Q1 close is booming year-over-year. Hospitality boasts 5% more projects and 7% more rooms in 2025 compared to Q1 2024, showing variety across segments and markets.

The willingness to build remains, but Ford also stressed that many of these projects were conceived before the current administration came into office.

Hotels are gradually getting better at marshaling control of an uncertain market, thanks to investments in technology to improve operations and consistently grow revenue and optimize their labor force. However, Younge said hotels should focus their attention beyond traditional performance metrics such as occupancy, ADR and RevPAR, to look at operating ratios broken down by chain scale.

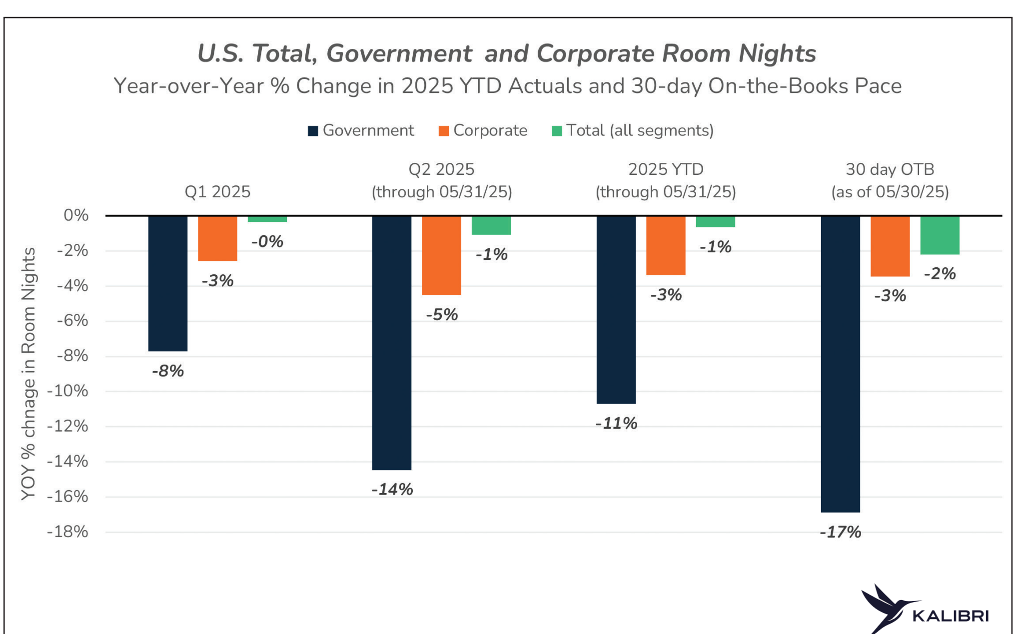
"Every segment of hospitality has a fundamentally unique cost structure, labor needs and margin realities," he said. "Evaluating performance without accounting for these differences oversimplifies what's happening. We also have to remember the U.S. is the largest and most diverse tourism economy in the world, with an unmatched spectrum of brands and operators. In this environment, the most valuable KPIs aren't national averages—they're class-specific operating metrics and localized financial performance benchmarks."

Estis Green also recommended examining local demand trends closely and targeting guests who are still traveling, even if they are booking into some of the discount rate programs. She sees the path forward for operators navigating a complex marketplace with many brands competing against numerous third parties, but it is also lined with opportunities for hoteliers willing to be deliberate about choosing the most profitable mix of business in their market area and act decisively.

"The uncertainty we are seeing today is not like what our industry had to overcome with COVID, because the desire to travel is there and people are looking for hotel options," she said. "Hoteliers have an opportunity to laser focus their attention on the demand within their market that is a good fit for their hotel, rather than chasing anything out there. Those who avoid panic and ride out the current wave of uncertainty will have better outcomes when a more stable demand pattern emerges. Now is the time to hold the line and pursue demand that meets a hotel's profit goals, whether or not it is in a hotel's traditional comp set(s). If some segments have declined, successful hotels have been resourceful in finding those that are still traveling—most markets have alternatives to the declining government sector. There are still many markets holding steady or growing despite the turbulence in the overall economy."

"In this environment, the most valuable KPIs aren't national averages—they're class-specific operating metrics and localized financial performance benchmarks."

—Brian Younge
Horwath HTL



Reduced international, government travel

The most significant disruption to hotel occupancy and revenue arguably has yet to hit the market. According to the World Travel and Tourism Council, the U.S. economy is

The WoodSpring brand outperformed the economy extended-stay segment in RevPAR by more than 14% throughout 2024.

Finding your ideal extended-stay guests and other operations concerns

Extended-stay travelers are unique. Extended-stay hotels benefit from travelers who seek a longer-than-average length of stay compared to typical guests, with extended-stay bookings lasting 35 nights on average. However, beyond their price structure, extended-stay hotels vary significantly from property to property. As a result, today's extended-stay operators are trying everything they can to locate their ideal guest and drive those bookings to improve gross operating profits.

Matt McElhare, VP, Choice Hotels' extended-stay segment, knows a thing or two about driving extended-stay bookings while focusing on profitability. Under McElhare, Choice's extended-stay properties now average gross operating profits of more than 50 points. Meanwhile, Choice's WoodSpring brand outperformed the economy extended-stay segment in RevPAR by more than 14% throughout 2024. This performance has continued upward, with the company's extended-stay portfolio growing by 10.8% year-over-year in Q1 2025.

McElhare said success at this level was contingent on consistently locating guests willing to book stays of two weeks or more. This required marketing to the right channels, understanding local market drivers as they have evolved over the past five years, and tracking new manufacturing or development projects over time. He also suggested Choice's decision to more clearly separate its economy and midscale extended-stay properties in the eyes of guests (through differentiated amenities and services) and owners (by adjusting development prototypes and operating models).

"We listen to franchisees and operators for pain points and how we can impact them," McElhare said. "Their feedback is incorporated into all our discussions, from development to technology, which we build into our strategy for driving length of stay and operating efficient labor models. Earlier this year, Choice gathered commercial leaders across all our internal organizations and clarified three focus areas for best-in-class technology to meet those needs."

These discussions may be more necessary than ever. "Uncertainty" remains analysts' word of the year, and during times like these hoteliers turn to branded partners to provide stability. From McElhare's perspective, once an extended-stay hotel has identified its core traveler base, it's necessary to rethink operations to match the extended-stay model.

"Extended-stay hotels have been around forever, but with the large volume of new interest in the segment, it is important for brand leaders to continue to think about new ways to teach the operations model for this segment," McElhare said. "Choice has a training team solely focused on extended-stay operations, and they train each of our general managers on best practices and insider tips to succeed in extended stay."

With more than 20 years of extended-stay operations behind them, McElhare is confident in Choice's ability to foster success in the segment through direct education. Everything from exterior design to flooring in each room can lower operating costs by making rooms easier to clean and more accessible to housekeeping and maintenance. Through these strategies, extended-stay operators can optimize revenue-generating square footage without significant operational overhead.

Extended-stay hotels also represent a significant opportunity for hoteliers to take advantage of the growing return of business travel. While business travelers are typically price conscious, blue- and gray-collar workers are an increasing part of the business travel community, and McElhare says this group historically responds well to extended-stay hotels.

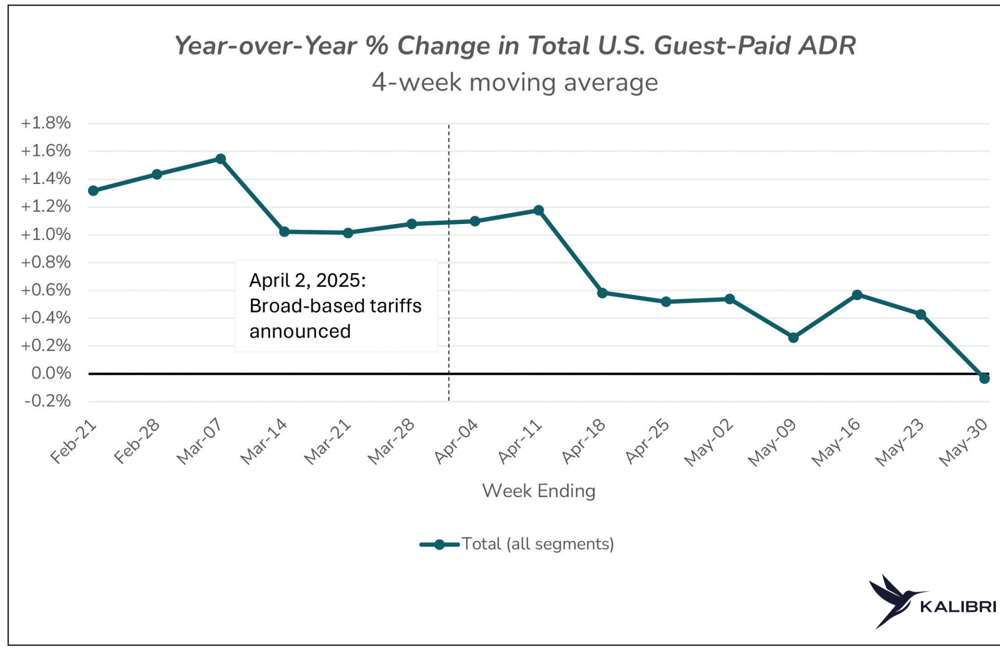
"Macroeconomic trends show the U.S. is experiencing a long-term infrastructure buildout alongside the reshoring of manufacturing stateside, while remaining committed to building green energy projects. Each of these trends benefits extended-stay hotels," McElhare said. "The differentiating factor for these bookings often lies in whether or not a property has a kitchen. Attributes like these move the needle on extended-stay bookings."

McElhare is adamant that despite the competition, there is room for growth. "There remains a massive supply/demand imbalance between purpose-built extended-stay hotels and guests calling for stays longer than seven nights," he said. "This segment has shown consistent growth, and there is still room for more."

expected to lose approximately $12.5 billion in international traveler spending throughout 2025. In January, the U.S. Travel Association expected travel expenditure in the U.S. to "grow at normalized rates, driven by resilient consumer spending, sustained business investment and major events promoting international visits." As of March, the group found international visits to the U.S. were down 14%, and recorded a 26% decline in overnight land trips from Canada, with air travel down 14% year-over-year. This was joined by further reduction in trips from Western Europe (down 17%), South America (10%) and Asia (which remains 25% under 2019 levels).

While international travel is down, ongoing cuts to government staffing and uncertainty about the future of government operations have led to a retraction in travel spending from these groups as well. While corporate business is down 3% year-over-year compared to 4% in 2024, government bookings have been hit the hardest. Overall, actual transient per diem bookings are down 11% as of May 31. Bookings from government travelers typically impact the economy, midscale and upper-midscale segments, which are already facing increased competition from upper-midscale properties due to inflation and consumer spending habits.

These results have been further impacted by a slight reduction in group business (1%),



but Estis Green said the most significant impact came as a result of uncertainty among the business community, which has stalled travel all the way up to Washington. "While corporate demand has seen modest declines year-to-date, our 30-day outlook points to a continued pullback in bookings that may be partially connected to general economic uncertainty and may be influenced by drops in government contractor volumes," she said.

Rachel Rothman, head of hotels research & data analytics, CBRE, said hotels should anticipate the gap between outbound and inbound travel to continue to widen in the short term. This may mean returning to some of the drive-up fundamentals the industry learned from during the pandemic as guests favor shorter trips, fewer amenities and more control over their experience.

"Despite the weaker dollar, outbound international travel rose 5.2% in March/April while inbound continued to decline 1.6%," she said. "Looking ahead to the peak summer travel season, the weaker U.S. dollar may encourage more Americans to vacation domestically, potentially benefiting regional leisure destinations such as national parks and resort areas."

According to Younge, the perceived sociopolitical environment of the current U.S. could drive international travel to alternative destinations, such as the Caribbean or Latin America. This could lead to an uneven summer season where gateway markets such as New York, Miami and Los Angeles benefit from international travel while secondary and tertiary markets make do with less. The challenge, from his perspective, is how difficult it is to measure, respond to or mitigate these challenges short of waiting them out.

"Visa processing delays, flight capacity and global economic uncertainty are all still in play for many international travelers," Younge said. "Long-term, we're optimistic, but for now, the industry needs to be proactive in signaling that the U.S. remains a compelling, inclusive and safe destination."

Demand share

According to Estis Green, one of the most interesting findings was that rate growth, since the federal policy changes began, has been stronger in the Rack/BAR, group and corporate segments, but those demand levels have declined. "At the same time, discount

14%

As of March, inbound international U.S. travel has pulled back more than analysts expect, with air travel down 14% year-over-year.

Source: U.S. Travel Association

rate segments like Loyalty Member Rates, OTA and other discount programs have seen slower to flat ADR growth while their demand has grown more strongly. It seems this combination has led to relatively flat RevPAR growth," she said.

11%

The number of transient per diem bookings is down **11%** as of May 31. This pullback reflects hesitation among both corporate and government travelers.

Source: Kalibri

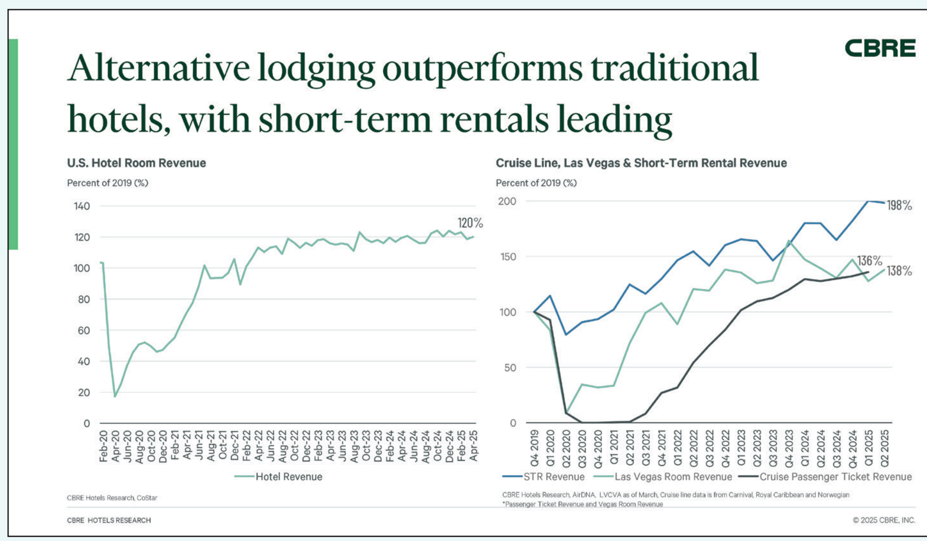
As a result of the limited demand and rate growth, Estis Green said most operators today are focused on controlling costs and expanding alternative revenue streams with an eye on improving profitability

Technology's role

Since hoteliers are reaching the peak of their ability to push rates in most markets, many have shifted their focus to investing in technology to further control costs and optimize operations wherever possible. Hotels also rely on technology today to set their booking pace, source their guests through targeted marketing and provide targeted forecasts to help them stay ahead of the market—in theory. The question is: How well will modern technology help keep

Alternative lodging remains resilient

Despite tons of negative press and a souring reputation among consumers for high fees, odd living quarters and bizarre rules, alternative lodging remains resilient among consumers. While U.S. hotel room revenue is up 120% compared to 2019, short-term-rental revenue is up 198% over the same period. This is despite hotels earning 136% growth in destinations such as Las Vegas, showing the resilience of short-term-rentals despite everything.



2.9% & 4.2%

Due to increases of 2.9% and 4.2% in inflation and wages, the cost of operating hotels is rising while the value of the dollar continues to stall. Predictably, hotels have turned to technology to identify opportunities to remain profitable in today's market.

Source: Statista

operators afloat in uncertain water?

According to Younge, technology is not just helping hotels or management companies become more successful—it's helping expose hospitality players who aren't evolving fast enough and placing them in stark comparison with their competition. Technology investment across the industry should be seen as an alarm bell for complacent operators who are lagging in their ability to remain competitive. This extends beyond rates to hotel operations, where advancements in touch and mobile technology have made it easier to train your workforce and simple to manage one property or more.

"Over the past year, the pace of tech innovation has been so rapid that many operators are struggling to keep up," he said. "We're seeing early adopters begin to separate from the pack in areas like revenue optimization and operational efficiency, but for the rest, the learning curve is steep."

The key, from Younge's perspective, is to invest in technology that assists with operations without trying to replace hospitality. Hotels are only as good as their service delivery, and new technology investments, brand refreshes and product improvement rollouts are becoming a distraction from reinforcing hospitality fundamentals. "Service isn't a trend," he said, "it's the product."

The challenge? Operating costs are increasing faster than revenue. Hoteliers used to invest in technology to pull ahead of their competitive set, but now these innovations are necessary to maintain operational efficiency, cut costs and expand their distribution network. Cory Chambers, EVP/chief commercial and analytics officer. HVMG, said that owners are quick to acknowledge the value of investing in their product and technology, yet many struggle to do so.

"Hotels that maintain the quality of their asset and are at the forefront of new technology always lead the way," he said. "Meanwhile, owners who are unable to increase their investment to the necessary levels at this point in the cycle will pass this challenge on to the next owner. This creates a market defined by buyers willing to wait-and-see before investing."

While it may seem overwhelming to choose your property's technology in today's saturated market, many analysts argue it has become clear which tools are the most effective for the job today. Elie Khoury, COO, Crescent Hotels & Resorts, said successful operators are committed to investing in personalization, automation and revenue management to run an optimized property and stand out from their competitors. These investments, he said, benefit hotels across all chain scales.

"We invest in our people through ongoing training and retention efforts," he said. "Personalization is woven throughout the guest journey, from pre-arrival to post-stay, creating meaningful connections and lasting impressions. We also invest in technology, leveraging advanced business intelligence tools that allow our teams to be more strategic and efficient in revenue management, forecasting and operational decision-making."

Chambers also suggested hoteliers should maintain their interest in contactless access or digital keys, "connected room" controls and programming for unique spaces on property. These elements will help maintain a connection between travelers and the hotel while simplifying operations.

"It always comes down to the basics: Take great care of the asset, associates and customers by infusing great technology and product enhancement where we can," he said.

"Personalization is woven throughout the guest journey, from pre-arrival to post-stay, creating meaningful connections and lasting impressions."

—Elie Khoury
Crescent Hotels & Resorts

Risk vs. reward vs. opportunity

Despite the market feeling like it is on the edge, opportunities remain plentiful to owners, investors and operators willing to take the risk. According to CBRE, rates for commercial mortgage-backed securities continue to pull back, declining 100 basis points year-over-year. Lower rates lead to a more than 50% increase in the number of loans issued, but the average loan size continues to decline, suggesting smaller deals are getting done.

In this marketplace, hotels are positioning themselves for aggressive asset management. To do so, owners and operators must be aware of the key performance indicators driving hotel success today, as traditional metrics may fail to tell the full story in an inactive market. According to Nair, among the first KPI to consider is booking pace, particularly for convention hotels in active markets. Who is coming to your hotel, from where and why? With international travel pulling back, it's invaluable to understand where hotels can still draw on for bookings and how to source interest from these consumers.

"Hoteliers should scrutinize their definite business on the books this year compared to what they pulled in last year and look for patterns behind any discrepancies," he said. "Understanding your property's specific segmentation mix is crucial today. A fresh perspective on where your segment is can help allocate your business differently compared to last year. We are continuing to optimize net operating income across our hotels this year as well."

While the hotel development pipeline shows signs of strength today, Ford suggested more operators may place their focus on renovations and finalizing product improvement plans as well. Strong guest satisfaction scores are one of the telltale signs of excellent brand consistency across hospitality, and hotel owners often seize on periods of uncertainty to renovate and/or reposition some of their portfolio.

The challenge facing any potential renovations in 2025 is the need for smarter spending property-wide, which may prompt another audit into hotel operations costs in the near future. Wage growth continues to outpace the consumer price index, with a December 2024 report finding inflation amounted to 2.9%, while wages grew by 4.2%. These trends suggest that, despite having more discretionary income, consumers are hesitant to commit to major spending due to ongoing economic uncertainty.

"On one hand, rising discretionary income supports increased travel spending," Rothman said. "On the other hand, a growing emphasis on savings presents a short-term headwind for the travel sector."

Meanwhile, extended-stay hotels remain an enduring bright spot for the hospitality industry as these properties consistently weather uncertainty and thrive when the market is up and development kicks into gear. According to Kalibri, purpose-built extended-stay brands in both lower and upper tiers continue to show strength relative to other lodging types. Recent data shows that extended-stay hotel segments were able to offset the loss of government demand through stronger transient bookings. Year-to-date, overall demand in extended stay continues to outpace performance in 2024 by 1 to 2% across all rate segments.

Extended-stay hotels benefit from a lack of reliance on government and corporate business, an active rate structure for long-term and transient guests, a wider selection of amenities and consistent interest among project-based bookings and select leisure travelers. Experimentation with alternative rate categories, adjustments in guestroom and public space floor plans and a reduced labor commitment also helped contribute to steady performance through May 31,

"Hoteliers should scrutinize their definite business on the books this year compared to what they pulled in last year and look for patterns behind any discrepancies."

—Sameer Nair
Peachtree Hotel Group

6%

New bookings for economy and midscale hotels are up **6%** in 30-day forecasts compared to 2024 levels, but both segments recorded a **2%** and a **3%** drop in demand through May.

Source: Kalibri

alongside reduced operating expenses.

The U.S. is also posting positive, but minimal, growth in RevPAR to offset some of today's uncertainty. Data from Kalibri shows an anticipated 1% increase in U.S. RevPAR, thanks to a 2% rate increase and a 1% decrease in demand. As a result, Estis Green said most operators today are focused on controlling costs and expanding alternative revenue streams to improve profitability.

"Rates are just not expected to grow the way they have over the past few years," the Kalibri cofounder said. "They were already plateauing before policy and government changes, now the industry is waiting out this wave of uncertainty."

Analysts across the industry also recognized the comparative success of the extended-stay segment when examining overall U.S. hotel performance. These trends were most pronounced, according to Ford, in the extended-stay development pipeline. Ford said investors increasingly view these properties as a safe bet, and if they can't find a crystal ball, they will most likely look for an extended-stay hotel instead.

"The segment has truly blossomed into one of the most attractive for investment across hospitality," Ford said. "These properties operated all throughout the pandemic and remain profitable and attractive to developers."

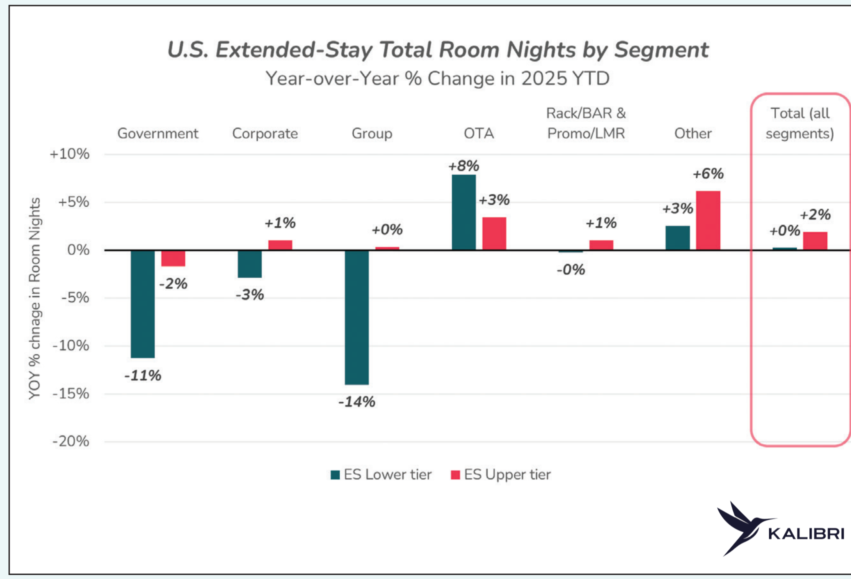
Chain Scales

Economy and midscale

The economy and midscale segments are experiencing the majority of the impact of ongoing economic uncertainty, tariff announcements and rising consumer prices. According to data from Kalibri Labs, both economy and midscale hotels experienced a 2 and 3% drop in actual demand through May 31, inclusive of all rate segments. However, 30-day forecasts for new bookings are up 6% compared to 2024 levels, showing the impact of shorter lead times amid travelers' desire to chase deals and defer payments as long as possible.

Economy and midscale hotels, often the refuge for government and business travelers on a budget, also watch these bookings subside. When it comes to government

Extended-stay hotels' day in the sun



While much of the hotel industry has experienced a transformation at the hands of new technology, increased competition and changing guest needs, extended-stay hotels continue to report rock-solid fundamentals and lead the hospitality industry in consistency. Lodging Econometrics' JP Ford said that the extended-stay segment blossomed during the pandemic and came out the other side more efficient to build, profitable and attractive to guests than ever before.

Lower-tier hotels offering extended-stay accommodation are lagging the rest of the industry, but despite government and corporate business down 5% and 4%, respectively, economy and midscale extended-stay hotels still grew 1% year-over-year. On top of this, upper-tier extended-stay hotels grew 2% overall thanks to slight improvements in corporate bookings.

Thanks to these trends, extended stay continues to be a significant investment vehicle for owners, operators and hotel companies. These properties provide stability in a sea of unknowns, without costly amenities or significant operational overhead.

bookings, these are simply drying up due to administrative cuts and shifting goals. Business travelers, however, are responding to the industry's higher overall rates by placing bookings at higher chain scales. CBRE's Rachel Rothman suggested lower occupancy across the economy and midscale segments could be related to over-investment in these hotels during the previous business cycle.

"Interestingly, the persistent top-line declines in the lower price tiers are resulting in hotel closures, which should ultimately restore the supply/demand balance," she said.

10%

The midscale hotel development pipeline grew 10% from Q1 2024 to Q1 2025, showing developers' resolve to build in the face of uncertainty.

Source: Lodging Econometrics

Unlike business travelers, leisure guests are either scaling back expectations for trips this year—or forgoing them altogether. Mary Beth Cutshall, chief growth officer, Vision Hospitality Group, said economy and midscale hotels are just now beginning to feel the squeeze of reduced interest from business and leisure guests. From her perspective, hotels operating in these two segments face a challenging road in 2025 as consumer behavior shifts and demand cools in the more budget-driven segments.

"These segments saw big gains during the height of the domestic leisure boom in 2021–2022, but as that demand normalizes and price sensitivity increases, they're now seeing some softening—especially in ADR growth," she said. "Guests in these categories are being more selective and often trading down further or skipping trips altogether due to rising costs."

HVMG's Cory Chambers said that despite current consumer pullback, the hotel industry now has data that can help adjust operating strategies. Recent data from the company shows flat transient pace is likely due to reduced business travel, leaving opportunities to recover these bookings from leisure travelers staying closer to home. During the pandemic, hotels could optimize bookings from drive-in leisure demand, and select markets thrived on renewed local draws to their community. This summer could see more of the same.

"With declining interest in outbound international travel, domestic demand could continue to be stable or even increase," she said. "The silver lining is that though occupancy is flat or down in many of our markets, occupied rooms are at an all-time high in some cases. Travelers just have more options than ever before, creating a competitive landscape."

Peachtree's Nair also pointed to the varying quality of products available to consumers across the midscale segment. Many of these properties already exist in a segment of close competitors (economy and upper-midscale), add to this the large and growing number of hotels in need of property improvement plans or potentially a total refresh. The result is a segment that has some of the largest variation in guest experience from property to property, and travelers need to be able to rely on a consistent experience from booking to check-out. Additionally, he said hotels that have unique room offerings, such as kitchens or suites, typically stand out more prominently in midscale today against their competitors.

"There is an opportunity to monetize the variety of demand we see in the mid-tier chain scale segments," he said. "Many brands do well in midscale when they focus on offering value. This is why hotels with

"With declining interest in outbound international travel, domestic demand could continue to be stable or even increase."

—Cory Chambers
HVMG

a suite product, bigger rooms, a breakfast component and space between the living area and bedroom show consistent demand. Travelers feeling the crush of higher prices and inflation may not acknowledge these challenges as much with these amenities. Product quality and price are still the main drivers of bookings today, and we still see opportunities for hoteliers."

If the construction pipeline is any indication of the future, midscale travelers will have even more variety to choose from soon. According to Lodging Econometrics, the midscale segment saw a 10% increase in development projects from Q1 2024 to Q1 2025.

Cutshall said she is seeing more hoteliers invest in renovations to renew interest in their assets and breathe new life into their economy and midscale hotels. These range from full-scale remodels to smaller, strategic improvements to elevate the perceived value of a hotel or more closely embrace its location. Committed operators are making changes to their hotels' facade, improving lobby lighting, adopting stronger WiFi or embracing local, thoughtful in-room amenities.

"Guests notice these touches, and they help justify rate integrity even in periods of softer demand," Cutshall said. "Things like mobile check-in, digital keys and chat-based guest service are becoming standard—and guests not only expect them, but they also reward hotels that offer them with better satisfaction scores."

However, the element that is moving the needle most for economy and midscale hotels is operational discipline. This could include taking new approaches to labor deployment, energy management and cost controls to compensate for a segment's more restrictive profit margins. According to Cutshall, any hotels still operating off a pre-COVID playbook are likely treading water compared to their competitors.

"It's the behind-the-scenes strategies that are really paying off," she said. "At the end of the day, success right now seems to be about staying nimble, leveraging tech to do more with less, investing where it counts, embracing experiences and always keeping a pulse on what guests are valuing most."

Upper-midscale

Upper-midscale hotels remain a consistent growth segment for development in 2025, continuing a trend that has been building for the last several years as investors focus on growing accessible value within their portfolio. According to Lodging Econometrics, the current upper-midscale development pipeline encompasses 3,031 projects consisting of 304,707 rooms, and depending on the market, there is much more room to grow.

Despite demand from developers, the upper-midscale segment has not been immune to disruption from ongoing uncertainty. Kalibri reported upper-midscale hotel demand declined 1% through May 31, alongside a 5% drop in future bookings across all rate segments and a 10% reduction in actualized government transient demand. Estis Green attributed some of this softening to the pullback in government per-diem bookings, which are a larger portion of the demand for these hotels. However, the segment's large development pipeline also contributes to more widespread booking displacement throughout each market.

Vision Hospitality's Cutshall said upper-midscale and upscale brands are both benefiting from increased transient bookings, recovering group travel and leisure demand. At this chain scale, hotels can offer more diverse rates and stay experiences, helping provide some protection against unexpected shifts in the market.

"These segments continue to offer a balance of value and comfort, which is exactly what many price-conscious travelers are looking for right now—especially weekday corporate guests and weekend leisure travelers trying to stay within budget," she said.

Business travel has found itself in a unique period of recovery where larger, publicly traded companies find themselves maintaining roughly 85% to 95% of pre-pandemic occupancy levels. Cutshall also said a growing number of small and mid-size businesses now account for a larger share of business stays than ever before. This trend is helping change the business mix of who is on the road, and how they define a great stay.

Hotels' increasing reliance on technology to provide memorable experiences and manage complex, high-level operations has remained consistent over the past few years at the upper-midscale segment and above. Cutshall pointed to hoteliers' growing focus on data-driven decision making and how it has rewritten the rules on hotel profitability, setting the pace for the rest of the industry to follow across all segments.

"Hotels that are really digging into their booking trends, segmentation and spend patterns are able to tailor offerings and shift strategies faster," she said. "Whether it's adjusting rates to capture last-minute demand or creating packages that align with specific guest types, that flexibility is driving better performance."

Upscale/upper-upscale

As the global group travel market is anticipated to grow to $651 billion by 2034, analysts are watching for the gradual return of group travel, beginning with consolidated bookings in hospitality's upper-segment tiers. However, experts are beginning to find it concerning that group booking pace fails to continue building momentum this year at the same levels as 2024. The upscale segment continues to grow thanks to both corporate and leisure group activity, but according to Chambers, this trend may not be as prominent as initially reported.

"Hotels that drive a larger group mix are seeing group pace decelerate and, in some cases, lag last year, which is the first time we've seen that in several years," the HVMG executive said. "Group bookings had been leading the way, but that is no longer the case across the board."

These trends were further substantiated by Kalibri, which reported that hotels in upper-tier categories posted flat to slightly negative performance through early April 2025. These included hotels across the upscale, upper-upscale and luxury segments, but the higher one looks, the more reduced

"[The midscale and upscale] segments continue to offer a balance of value and comfort, which is exactly what many price-conscious travelers are looking for right now."

—Mary Beth Cutshall
Vision Hospitality Group

the impact is. Collectively, each of these segments was down 1%.

Even for elite hospitality operators, upscale hotel performance continues to vary by market. Crescent's Khoury said he is confident in the performance of his group's upscale hotels, on the condition that they have access to consistent transient bookings.

"Upscale properties are holding their ground, particularly in markets where transient leisure demand remains consistent," he said. "Location and market dynamics are key drivers of performance across all segments."

Khoury said that upscale hotel owners are focused today on making smart investments in personalization, automation, and profitability for when uncertainty abates. Hotels that take these steps will be able to continue building on their future success while others are locked into a pattern of "wait-and-see."

"The basics matter today at all levels," the Peachtree executive said. "To stay ahead, our leadership team remains focused on a few critical KPIs. These include guest satisfaction scores, RevPAR Index growth, booking pace and pickup trends."

This remains true for business travel markets, as hotels with access to strong group travel have recovered revenue faster than nearly any other property. However, group travel continues to sequester itself in the upper-upscale and luxury segments. With corporate meetings and association events back on the calendar through the year, the industry is seeing a resurgence of activity in select major markets.

"Group travel is having a moment right now, and it's opening the door for strong weekday performance—especially in urban and convention-heavy markets," Cutshall said. "The industry is seeing solid activity in key cities like Chicago, Atlanta and Dallas. While booking windows are still on the shorter side, actual attendance and event sizes are definitely up. Big conventions are back, too, and that's driving some healthy compression, which in turn is lifting ADR in several urban markets.

Khoury pointed out a clear bifurcation in customer behavior between the upper-upscale and luxury segments, both of which are experiencing growth for different reasons. "While upper-upscale demand is more market-specific and fueled mainly by the continued rebound in group and negotiated business, luxury hotel bookings continue to be driven primarily by rate as high-income travelers remain less sensitive to inflation and other economic pressures," he said.

-1%

Collectively, the higher-tier segments all recorded nearly unified reduced occupancy (down 1%) through May 2025, but show resilience thanks to their market fundamentals and aspirational product.

Source: Kalibri

One trend that is bubbling up from the lower tiers to the upper crust of hospitality is how guests perceive the value of a booking, whether or not hotels are delivering that value at one property. As prices rise, even travelers visiting upscale and upper-upscale hotels for stays, events or amenities are scaling back their purchases or being more selective regarding how they spend once on property. These trends can be reflected in the markets travelers have been frequenting and their chosen experiences.

According to Cutshall, guests are scaling back on extras such as spa treatments, fine dining and other add-ons to optimize their length of stay, or to watch their spending on the road. "Even those who can afford to travel more freely are starting to look for better value, whether that's through bundled packages, loyalty perks or complimentary amenities," she said. "[Travelers'] focus now is clearly on making every dollar stretch further."

From an investment perspective, Cutshall said the upscale and upper-upscale segments are growing increasingly attractive as debt markets show signs of thawing. Lifestyle and soft-branded hotels remain hot commodities for development and acquisitions, particularly for investors who anticipate further economic headwinds throughout 2025. She anticipates dealmaking activity will heat up in the latter half of the year, especially for well-located, branded assets in stable or growing markets.

"While interest rates are still higher than we'd like, lenders are beginning to feel more confident about hospitality performance, especially in markets with strong group, corporate or leisure demand," she said. "That opens the door for acquisitions or development projects that might've been shelved over the last couple of years. So yes, while there are still hurdles—like construction costs, permitting delays and labor—it's not all doom and gloom. For investors and developers who are strategic, well-capitalized and tuned into evolving demand patterns, there's real opportunity out there in 2025."

Luxury/resorts

While luxury hotels struggled to regain lost ground over the past few years, as of 2025, the segment has shaken off the rust and gotten back in the ring. CBRE's Rothman said luxury properties continue to record positive top-line growth, although the pace of these gains is gradually slowing. Today, the segment is active, evolving and largely insulated from the pressures of tariffs and inflation.

Putting any potential upside into numbers, CBRE called luxury and all-inclusive resort searches the "only bright spot" for hotel search, as both paid and redemption night queries continue to fall each year. While brand loyalty program searches were down 6% year-over-year, searches for all-inclusive resorts were up 9.4%. These trends reconfirm guests are seeking value over loyalty in 2025 at all levels, all the way to the top of luxury.

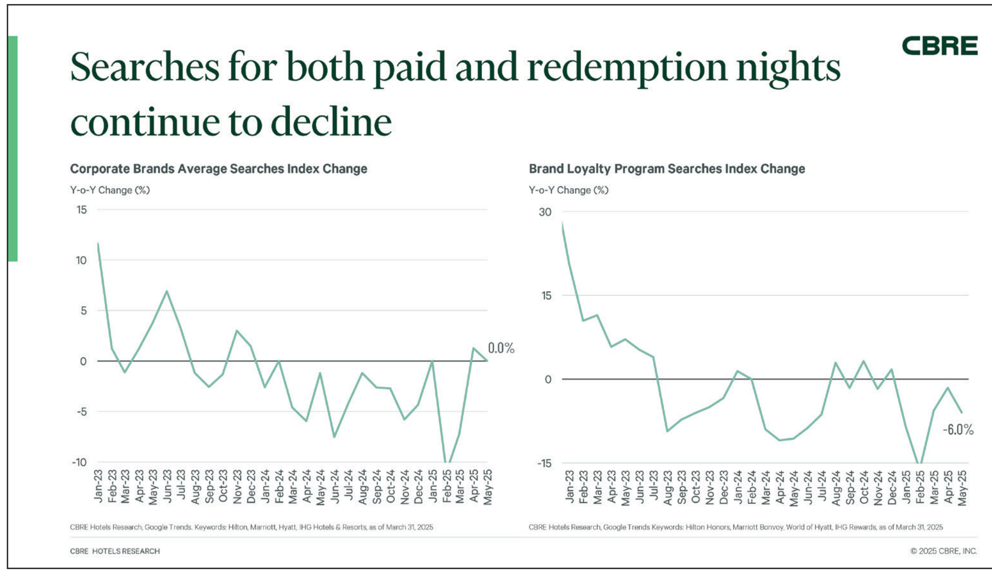
Horwath HTL's Younge found the growth of the luxury segment in 2025 to be intriguing, not only because of how resilient the segment has remained, but also just where it is thriving. Traditional luxury destinations such as New York, Palm Beach and Miami continue to lead the charge in extravagant bookings, but markets including Atlanta, Austin and Indianapolis have come into their own as surprising forces in luxury travel.

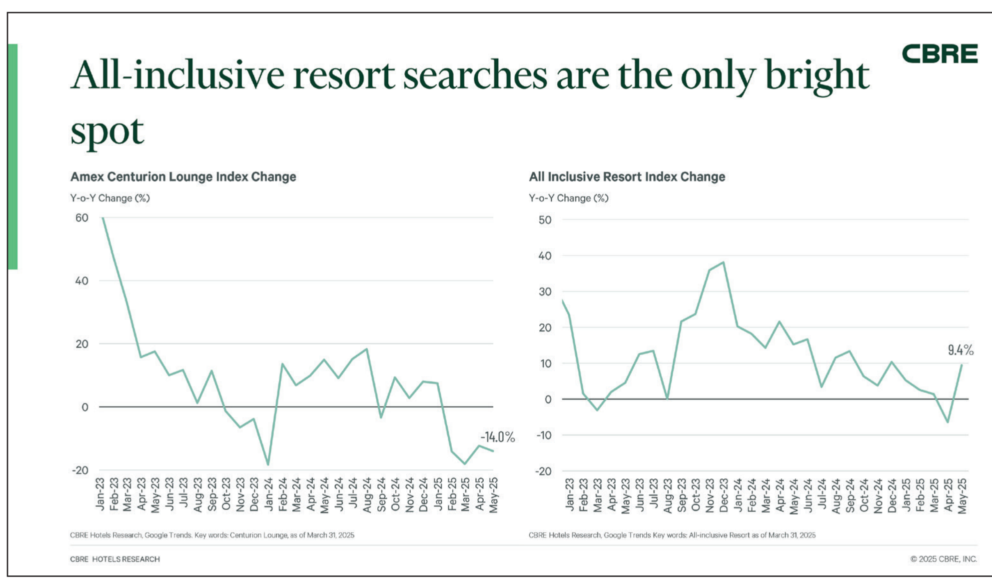
"These gains suggest that secondary and tertiary markets are becoming more viable for high-end investment when product, demand and positioning align," he said. "The bottom line is that luxury is evolving. The segment is no longer confined to coastal gateways. It's showing up in new places, and that shift is changing how we think about brand deployment and market viability in the top tier."

Part of the segment's success is simply due to its price point. Peachtree's Nair said that the target customer group for luxury hotels almost has a "need to spend" while traveling, meaning the segment has different challenges from others. Rather than finding new ways to cut costs and creatively operate doing more with less, luxury hotels are challenged to continue evolving in a market that once expected change and now demands it.

Nair has also been surprised by the markets where luxury hotels continue to underperform. He did not attribute their pullback in revenue to mismanagement but rather focused on demand fundamentals that are simply drying up. Luxury travelers have the freedom of movement and abundance of options to choose new markets, spreading out bookings and disrupting their usual trips.

"When you have high levels of uncertainty, it can seem scary to businesses," he said. "When the economy, business and the people we work with are all evolving, it can be difficult to see the upside. But hotels, particularly at the higher end, are encouraged to embrace these periods and find any opportunities available."





Extended-stay investment continues to provide stability for major brands

The extended-stay hotel segment remains one of the most consistently active and profitable across hospitality. Extended-stay hotel occupancy is impacted by external factors influencing any market, from manufacturing and new construction to medical tourism and macroeconomic factors. As a result, the 2022 Infrastructure Investment and Jobs Act has kick-started a wave of development and manufacturing that continues to drive travelers to extended-stay hotels to this day. Clearly, extended-stay hotel profitability isn't checking out any time soon.

Thanks to their consistent fundamentals and resilience in the face of uncertainty, the benefits of investing in the segment have led to an increased level of development in extended stay across the board, but nowhere is this more prominent than with Choice Hotels' investment strategy over the past few years. In 2018, the company's entire extended-stay portfolio sat at just 100 hotels despite more than 20 years in the space. Then, Choice made the decision to acquire WoodSpring Suites, immediately adding nearly 240 extended-stay hotels to its portfolio and beginning the company's current push to continue expanding across the segment. This push continued with the launch of a new extended-stay brand, Everhome Suites, in 2022.

Today, Choice Hotels has quadrupled its extended-stay footprint and established itself as a major player in the current extended-stay development pipeline. In fact, thanks to the company's significant development goals, nearly two-thirds of all rooms to open in the extended-stay segment in 2024 belonged to Choice Hotels brands. Today, roughly 8% of Choice Hotels' portfolio exists in the extended-stay segment, and the company plans on opening more than 60 additional properties in 2025, with roughly 400 total in its pipeline.

There is a fine line between seizing on an opportunity for growth and going all-in on an impactful strategy, and Ron Burgett, SVP, development, Choice Hotels, said extended stay has become a significant part of the company's strategy for success. This plays into the rollout of the Everhome Suites concept. The brand's property prototype was designed based on developer and franchisee feedback to include a four-story interior corridor to eschew the extras that bog down other extended-stay operations.

"Choice Hotels' first extended-stay hotel opened 21 years ago in Wichita, KS," Burgett said, "By now, we understand what guests want out of an extended-stay guestroom, and what hoteliers need to thrive in this segment. We are focusing on hospitality fundamentals and driving length of stay for owners and guests. This is the driving element behind extended-stay success."

Hoteliers typically avoid developing extended-stay hotels in major markets already stocked with traditional hotel rooms, but Burgett pointed out Choice avoided this strategy with Everhome in 2022. Instead, the company immediately began development in major markets such as the suburbs of Los Angeles and Sacramento, CA. While this may appear to be a risk, Burgett said the hospitality industry's historic fundamentals tell a different story.

"Extended-stay demand has increased 3% year-over-year, and as long as demand continues to outpace supply, we will continue to see new development projects, especially for owners and operators looking to leverage modern design and development trends to achieve higher returns," Burgett said.

Part of Choice's success in extended stay can be attributed to how quickly and efficiently it has been able to roll out new long-term rooms in targeted markets. The secret? Kitchens. Two years ago, Choice launched its Kitchen in a Box program, where the company ships premade kitchens to existing properties, instantly allowing transient hotels to accommodate extended-stay guests. According to Burgett, the program has an average install time of 4-6 months, allowing hotels to adjust their operating strategy and accommodate new needs within any market.

"Thanks to Kitchen in a Box, we are open to conversions in markets where existing assets can make inroads into extended stay," Burgett said. "This is our way of adding value to existing properties and markets where guest preferences have shifted, but hospitality fundamentals remain strong. It also creates a viable way for operators to implement new strategies while the cost of new construction remains high."

Choice's development strategy allows aging properties to reinvigorate their personality and reassert themselves in an evolving marketplace where bleisure travel and longer stays are commonplace. With just a few adjustments to a property's facade, new technology infrastructure behind the scenes and a sparkling kitchen, any hotel can reorient itself toward extended stay during a pivotal moment for the segment.

The acquisition of Woodspring Suites added nearly 240 extended-stay hotels to Choice's portfolio.