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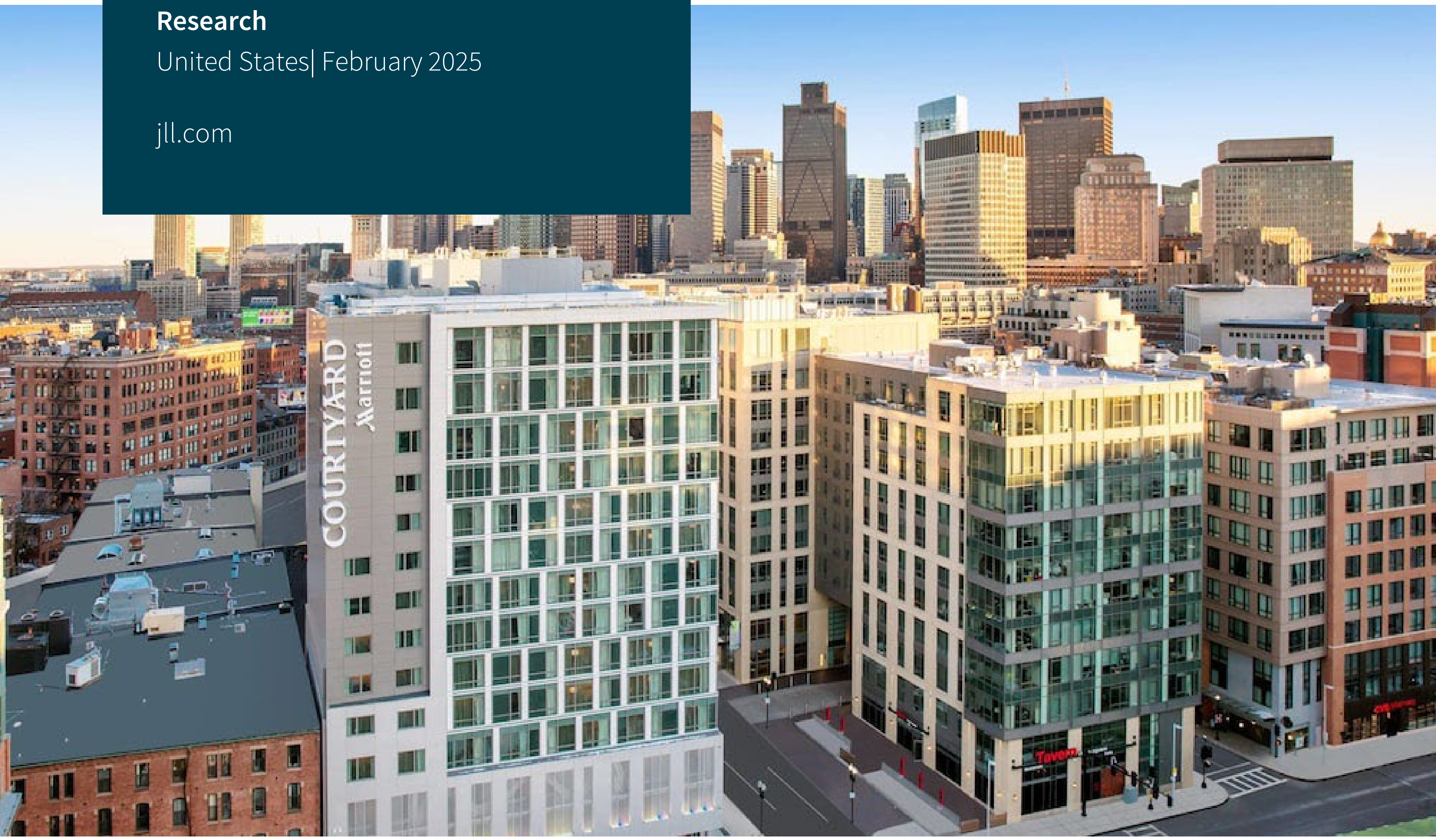

U.S. Select-Service and Extended-Stay Hotel Outlook 2025

As we move into 2025 and beyond, select-service and extended-stay hotels are poised to remain a focal point for investors seeking durable returns in a volatile market.

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Executive summary

Since 2020, the U.S. select-service and extended-stay hotel sector has transformed into a unified market, offering a blend of amenities to meet evolved traveler preferences, with recent positive trends reinforcing its appeal as an investment opportunity. The sector's growth in 2024 was marked by record-breaking RevPAR reaching $78, 14% above 2019 levels, as well as demand surging by 232,000 room nights year-over-year, almost fully recovered from 2019. The sector also demonstrates superior operational efficiency, consistently achieving higher profit margins than their full-service counterparts. Furthermore, the sector's overall profitability has proven resilient to inflation, with growth rates exceeding CPI's upturn over the last four years.

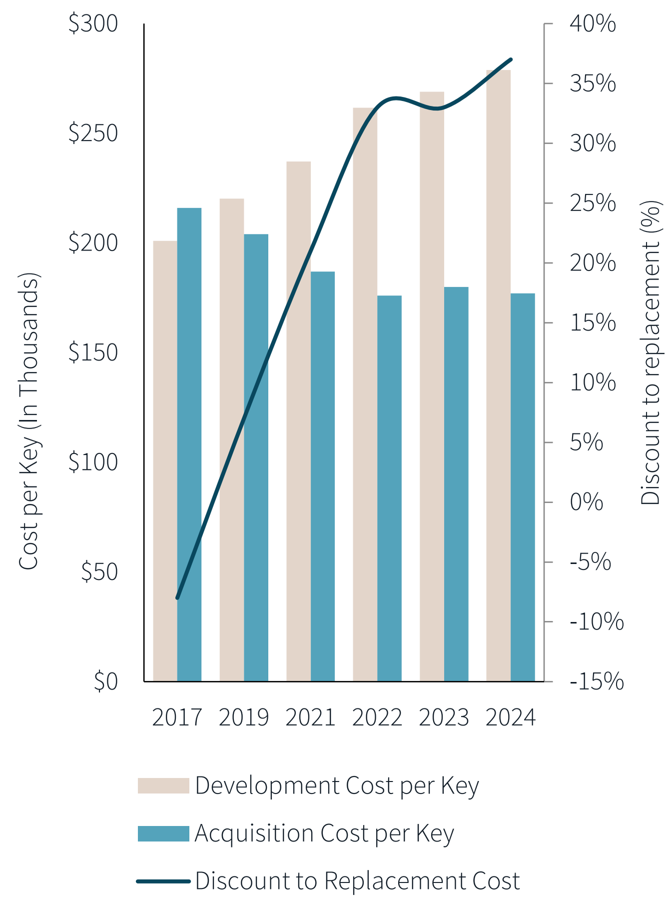
Brand proliferation has been significant, with the sector now boasting 214 total hotel brands. Given today's lack of organic supply growth, hotel brand companies are now prioritizing M&A and conversions to boost continued net unit growth.

Since 2021, the sector has attracted $62.6 billion in investment volume driven by increased activity from owner-operators, HNWIs, and private equity firms. Investment activity is likely to maintain its momentum, given that acquiring properties in the sector's top U.S. markets is 37% below the cost of new development.

While high interest rates have temporarily impacted portfolio transactions, this trend is expected to reverse as rates and spreads have decreased.

As the industry navigates evolving market conditions, engaged with a diversity of lender types, the select-service and extended-stay hotel sector is well-positioned to leverage its strengths and maintain its status as a robust and attractive investment opportunity in the coming years.

U.S. select-service hotel acquisition vs. development cost per key in top markets



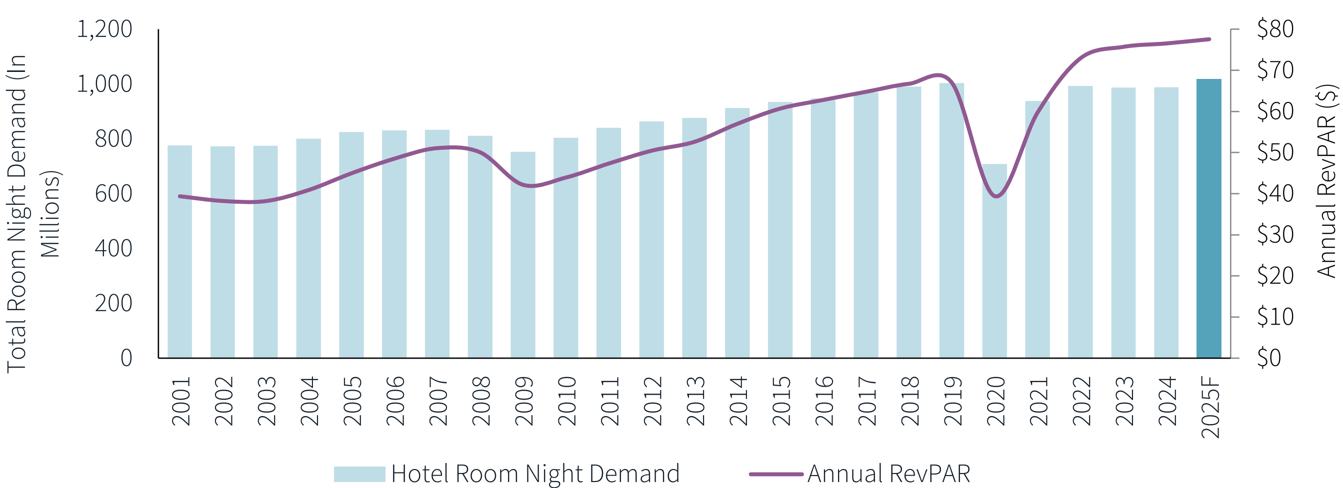
Source: JLL Research, RLB Construction Cost Report
Notes: All transactions data pertains to single-asset, select-service transactions $5M+, that closed exclusively in top U.S. markets. Construction data is based on weighted averages across top U.S. markets for select-service hotels. Construction costs include land, site improvement, soft costs, FF&E, working capital, and development fees.

02

Robust performance, profitability and durability, despite consumer pressures

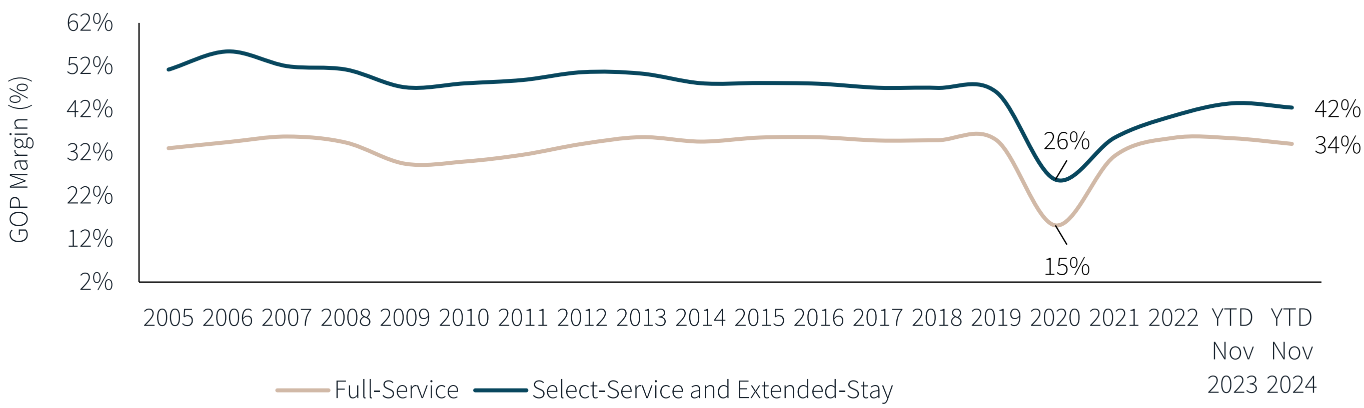
Select-service and extended-stay hotels are exhibiting robust performance with RevPAR hitting a record high of $78 in 2024 and demand rising by 232,000 room nights year-over-year, almost fully recovered from 2019. In 2025, demand is expected to surpass 2019 levels. These properties cater to evolved traveler preferences for longer stays, remote work, and work-life balance by offering amenities like in-room kitchenettes and recreational areas. This evolution has diversified their customer base, attracting leisure, business, and "bleisure" travelers. In the years following its historic trough in 2020, the sector has seen a significant upward trend in room night demand, projected to reach 1.02 billion by 2025, surpassing the long-term average from 2001 by 16%. This surge in demand, coupled with the sector's adaptability to changing consumer needs, positions it for continued growth and increased investment interest in the coming years.

U.S. select-service and extended-stay hotel room night demand and RevPAR, 2001 – 2025F



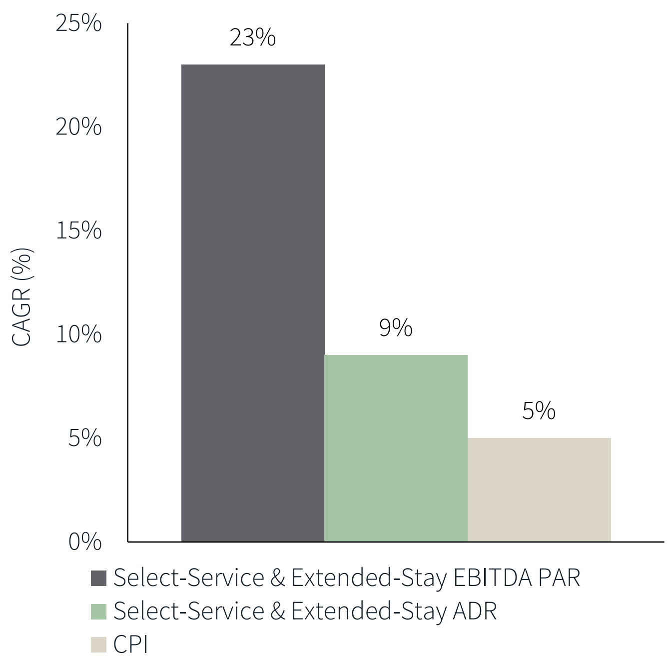
Source: JLL Research, STR/Costar
Notes: 2025 total room night demand and RevPAR are forecasted.

U.S. select-service and extended-stay vs. full-service hotel GOP margins, 2005 - YTD Nov. 2024



Source: JLL Research, STR/Costar
Notes: Comparison between YTD November 2023 and 2024 are shown to reflect backward revisions. Data is as of November 2024.

U.S. select-service & extended-stay EBITDA PAR & ADR vs. inflation CAGR, YTD Nov. 2021 - 2024



Source: JLL Research, STR/Costar
Note: CAGRs are calculated from YTD Nov. 2021 to YTD Nov. 2024. GOP (gross operating profit) margin is calculated as GOP / Total Revenue x 100 and focuses directly on operational expenses, excluding overhead costs. EBITDA PAR (per available room) measures a hotel's overall profitability on a per-room basis, considering any additional overhead costs (excluding replacement reserves) and providing a full view of profitability and comparable metric with inflation. ADR growth directly impacts revenue and has a high flow-through to EBITDA, making it a key driver of EBITDA PAR growth.

The select-service and extended-stay hotel sector also demonstrates durability in its operational efficiency by consistently delivering superior gross operating profit (GOP) margins compared to full-service hotels. The sector's operational efficiency is notable even during volatile economic events, as evidenced by its 26% GOP margin in 2020 - outpacing full-service hotels by 11 percentage points. The sector's lean operating model characterized by fewer staff, technology integration, efficient space, and limited amenities contributes to the sector's higher profit margins.

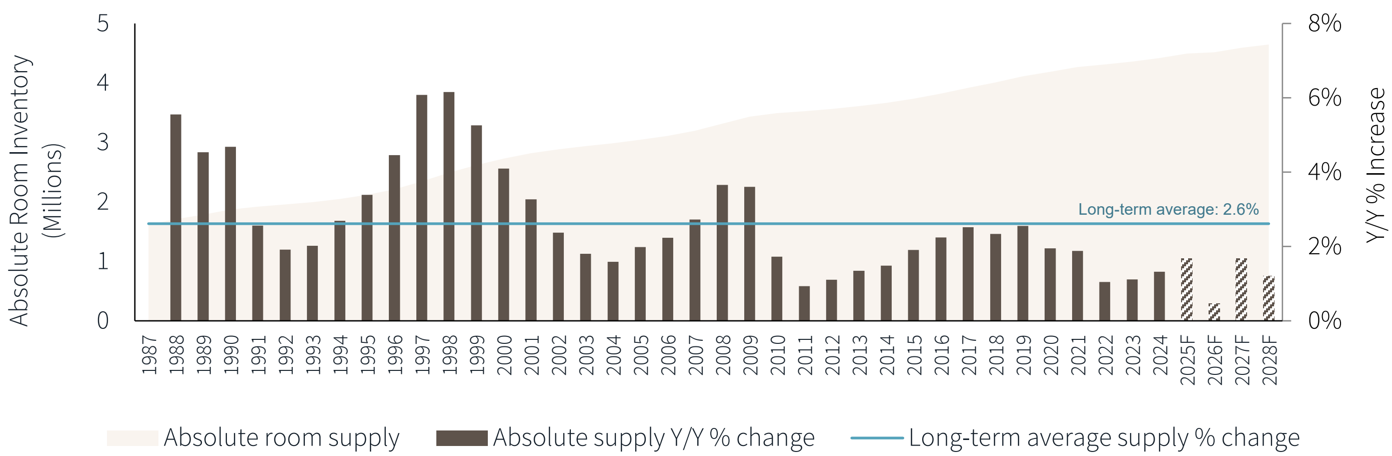
The sector's investor attractiveness is further enhanced by its resilience in profitability versus inflationary pressures. Over the past four years, EBITDA PAR growth has outpaced inflation rates. with a 23% CAGR versus 5% for CPI. This gap, boosted by strong ADR growth, underscores the sector's capacity to maintain profitability while delivering inflation-beating returns, presenting investors with an opportunity for strong, consistent performance even through economic downturns.

03

Brand proliferation in a constrained supply environment

Historically, commercial real estate, including the U.S. select-service and extended-stay hotel sector, has experienced cyclical patterns in new development, with significant growth periods concentrated in the late 90's, early 2000's, and after the Great Financial Crisis. Since these construction booms, however, new supply growth has slowed significantly. Since 2020, the sector's room supply growth on an annual basis has consistently remained below 2.6%, the long-term average annual growth rate observed since 1988. This subdued growth has been constrained by an environment of elevated interest rates, high development costs, and persistent supply chain disruptions. Supply growth in 2024 remained 122 basis points below the long-term average, a trend projected to continue in the coming years, potentially exacerbated by global trade tensions. This is expected to enhance the sector's overall performance, profitability, and appeal to investors.

U.S. select-service & extended-stay hotel supply growth, 1987 - 2028F



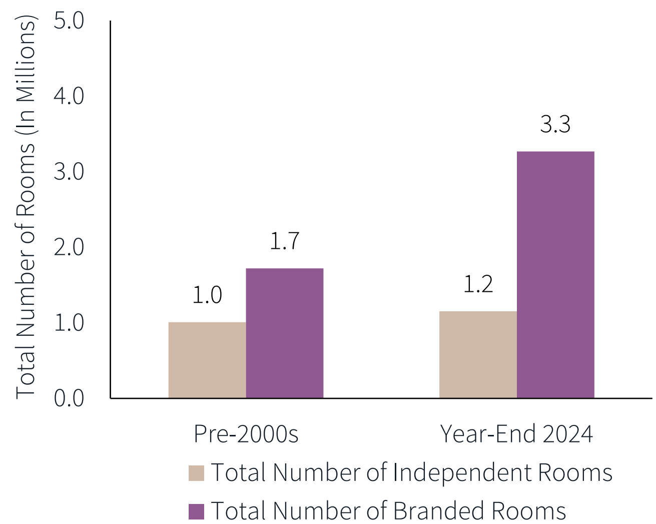
Source: JLL Research; Notes: Forecast as of December 2024. 2025 and 2026 supply growth forecast includes hotels that are in construction. 2027 supply growth forecast includes hotels that are in construction and final planning with confirmed opening dates. And 2028 supply growth forecast includes hotels that are in construction, final planning, and planning with confirmed opening dates.

The U.S. select-service and extended-stay hotel sector has experienced a proliferation in hotel brands, growing from 184 brands in 2000 to 214 today. Branded hotels in this sector now account for 74% of the total supply, 9 percentage points higher compared to the pre-2000 era. In the last five years, several new brands have entered the market including the Atwell Suites by IHG, Everhome Suites by Choice, Caption by Hyatt, Tempo by Hilton, ECHO Suites Extended Stay by Wyndham, LivSmart Studios by Hilton, and Spark by Hilton. This proliferation of brands reflects the sector's dynamic growth and major hotel companies' strategies to capture an evolved consumer wallet.

Branded hotel supply has grown remarkably, nearly doubling from 1.7 million rooms in 2000 to 3.3 million in 2024 - a 90% increase. This growth outpaced independent hotels by 76 percentage points. For hotel brand companies, net unit growth is crucial, as it accounts for half of their shareholder value. However, with limited organic supply growth in today's market, these companies have turned to M&A and conversions to fuel expansion.

In 2024, a significant M&A event occurred the hotel industry when OYO acquired G6 Hospitality for $525 million. This deal encompassed all Motel 6 and Studio 6 hotels, marking a notable shift in the sector's landscape. In parallel, the industry has seen a shift towards conversion-focused brands. Several major hotel groups have introduced or revamped conversion-focused brands such as Sonesta's Signature Inn, Spark by Hilton, Marriott's City Express, Choice's Park Inn by Radisson, and IHG's Garner in response to rising development, financing, and PIP costs.

U.S. select-service and extended-stay hotel room supply: independent vs branded



Source: JLL Research, STR/Costar; Notes: Data as of year-end 2024.

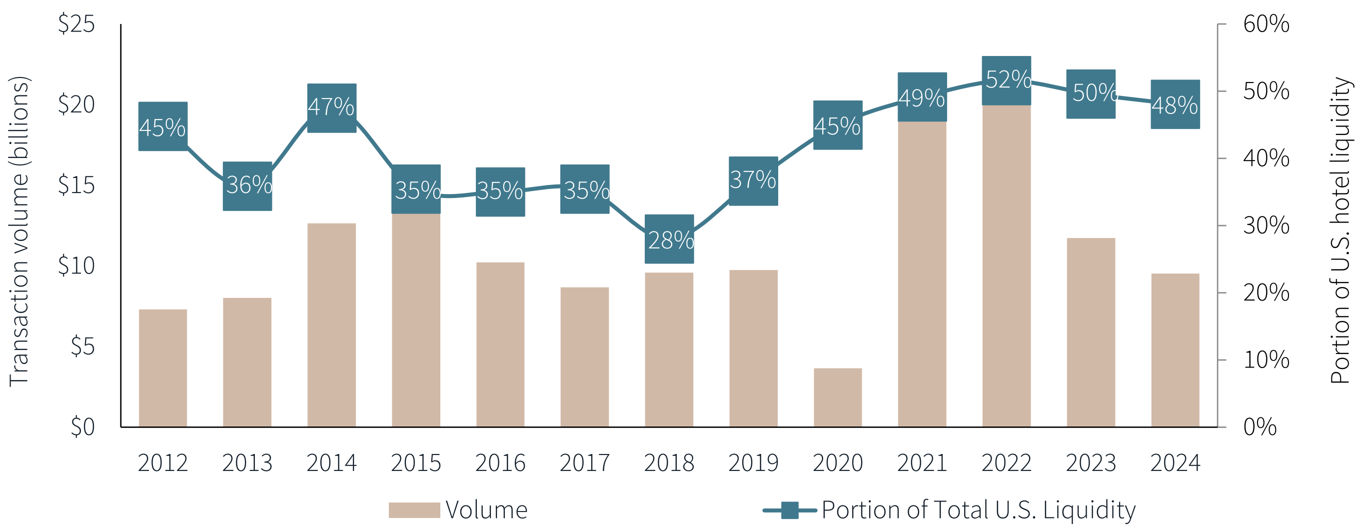
These strategies allow hotel brand companies to rapidly expand their footprint and offer more options to travelers without relying solely on new construction. With a lack of organic supply growth and need to drive fee revenue, expect hotel brand companies in the sector to continue to rely on M&A as well as conversions to achieve net unit growth.

04

Sector continues to attract outsized investor interest driven by strong, durable returns

Liquidity for select-service and extended-stay hotels has reached a staggering $62.6 billion since the onset of Covid (2021-2024), nearly 2x that of the prior four-year cycle and by far the highest 48-month total in U.S. history. While the sector's investment volume contracted 19% in 2024, a similar decline as that of overall U.S. hotel liquidity, it continues to comprise nearly 50% of the country's total hotel investment volume. Investors have increasingly gravitated towards the sector driven by its robust fundamental performance, lean operating model, and outsized yields relative to other primary commercial real estate sectors.

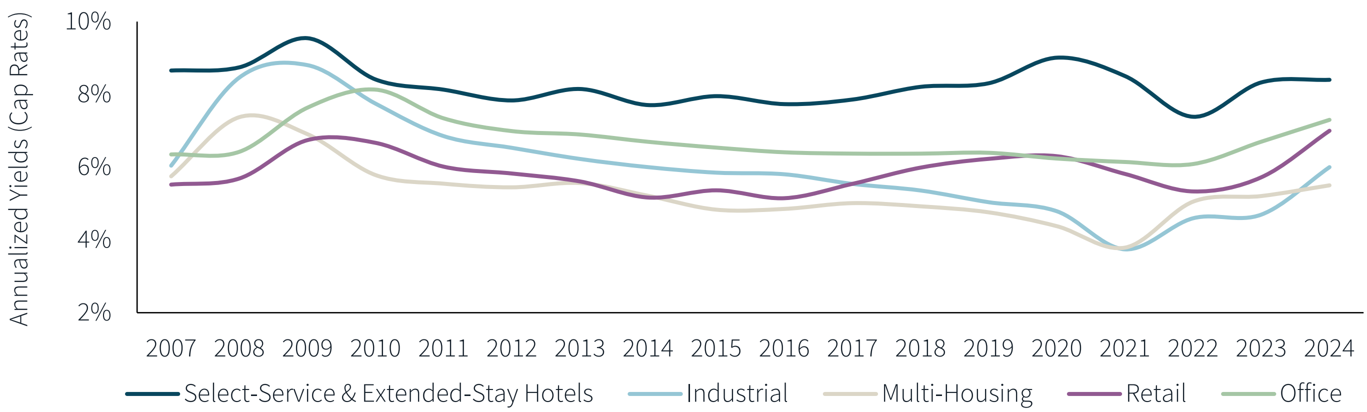
U.S. select-service & extended-stay hotel transaction volume & portion of liquidity



Source: JLL Research; Notes: Includes all select-service & extended-stay transactions $5M+ excluding casinos. Entity-level deals are included only if underlying real estate was traded. Figures above the bars represent the portion of total U.S. hotel liquidity.

The select-service and extended-stay hotel sector's inherently lean operating model and ability to appeal to a wide range of travelers has historically resulted in higher and more consistent yields relative to other main commercial property sectors. Since 2007, the sector has achieved an average yield of 8.3%, 230 basis points higher than the average of the industrial, multi-housing, office, and retail sectors. Moreover, the select-service and extended-stay sector has also provided more stability, with the **lowest level of yield volatility over the past 16 years relative to other main property sectors**. As investors continue to navigate ongoing capital market dislocation, namely high debt costs, this consistency has proven invaluable and has increased the sector's attractiveness.

U.S. annualized yields by property sector



Source: JLL Research, Real Capital Analytics; Notes: Select-service and extended-stay hotel yields include both single-assets and portfolios in which all hotels are exclusively select-service or extended-stay.

Amid ongoing capital market volatility and high debt costs, hotel owner-operators have become the most active buyers of select-service and extended-stay assets. This can largely be attributed to an ability for these owners to consolidate above-property costs, thereby driving even higher margins in an already high-profit sector. HWNIs achieved the highest portion of total sector liquidity in 2024, at 17%, driven by their lower reliance on leverage amid elevated interest rates. Look for owner-operators and HNWIs to be increasingly acquisitive in 2025 and beyond, particularly as the major brands have indicated a desire to move further away from management in this sector. Private equity, the largest acquirer of hotel assets broadly, will likely be increasingly active given increased debt market clarity. Expect these groups to particularly target select-service portfolios, with the ever-elusive portfolio premium likely to return in 2025.

29%

Owner/Operators represented 29% of select-service and extended-stay hotel liquidity in 2024

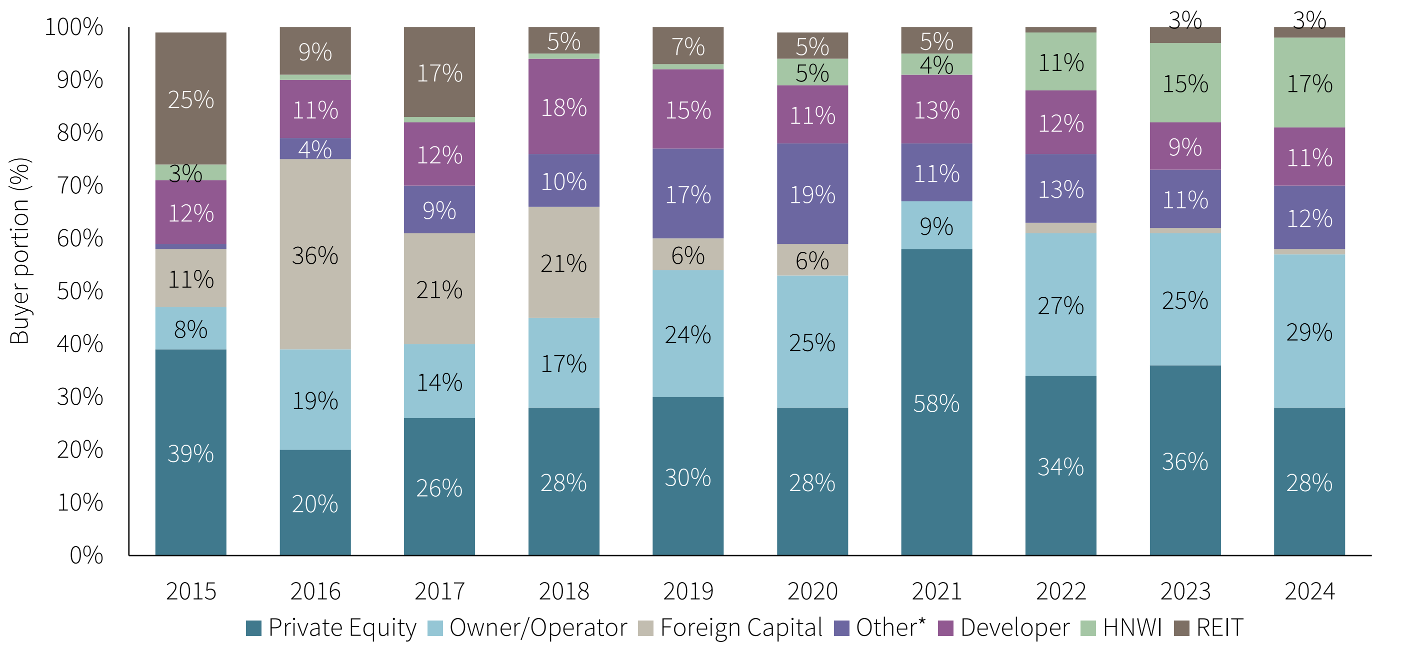
28%

Private Equity represented 28% of select-service and extended-stay hotel liquidity in 2024

17%

HNWIs represented 17% of select-service and extended-stay hotel liquidity in 2024

Portion of Select-Service & Extended-Stay Hotel Liquidity by Buyer Type



Source: JLL Research; Notes: "Other*" buyer type includes corporates, banks, and institutional investors. Post-Covid, "Other*" has increasingly been comprised of government and/or nonprofit agencies buying hotels to redevelop into subsidized housing.
Transactions data includes all deals $5M+ excluding casinos. Percentages that are 2% or below, are not shown on the bar chart.

When Will the Portfolio Premium Return?

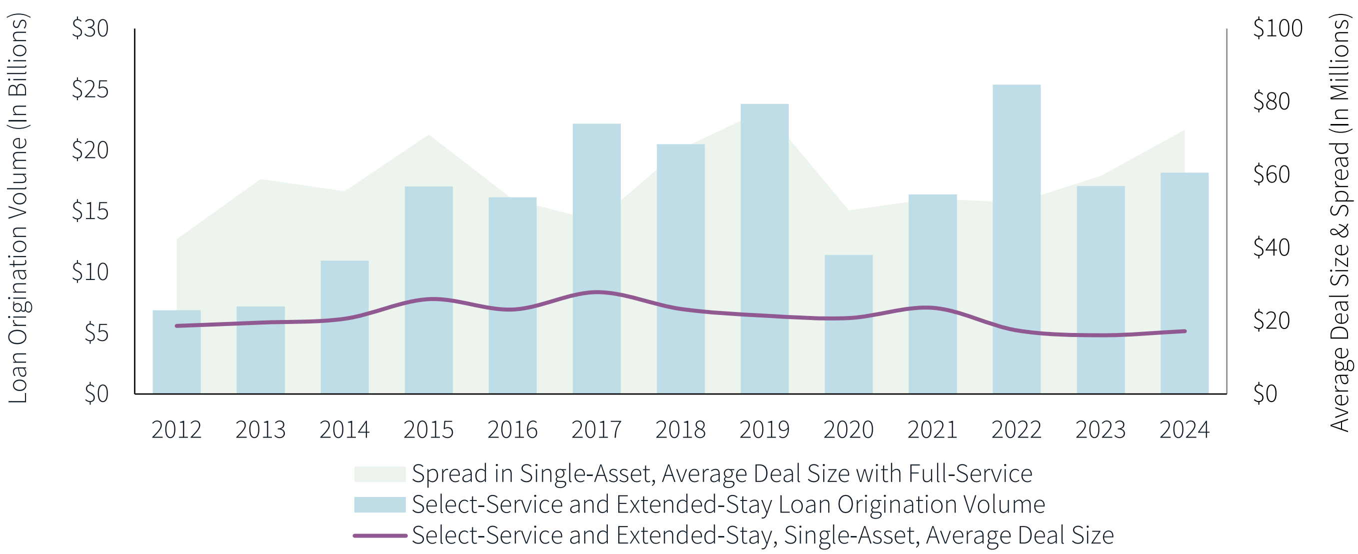
Much of the decline in private equity investment can be attributed to the lack of portfolios. In 2024, select-service and extended stay portfolio volume fell 49% to a historic-low of only $848.6 million. Due to increased interest rates as result of the Fed's tightening between 2022 and 2023, portfolio volume has accounted for only 16% of the sector's liquidity, a decline of 23 percentage points relative to historical averages (2012-2022). This sharp decline in portfolio volume is reflective of the challenges investors have faced financing larger transactions due to elevated debt costs. Historically, select-service and extended portfolios have been accretive to investors, evidenced by an average price per key premium of 17%. This premium has all but disappeared over the past 24 months in conjunction with rising interest rates. JLL expects that the portfolio premium will likely return as interest rates have fallen and credit spreads have compressed, which started with the Fed's current series of rate cut that began in September of 2024.

05

Increased lender diversification driven by a smaller cheque size and debt market clarity

The U.S. select-service and extended-stay hotel sector maintains its allure for lenders, even in the face of higher debt costs. In 2024, loan origination volume for this segment grew by 6.4% compared to the previous year, reaching $18.2 billion and surpassing the long-term average annual growth rate since 2012 by 10.7%. This growth is largely attributed to the sector's relatively modest average deal size, which currently stands at $17 million, significantly lower than that of full-service hotels. The widening gap in average deal sizes between full-service and select-service and extended-stay hotels has become more pronounced since the pandemic, enhancing the sector's appeal from a lending standpoint.

U.S. select-service & extended-stay hotel (single-asset) average deal size and loan origination volume vs. full-service hotel (single asset) average deal size gap

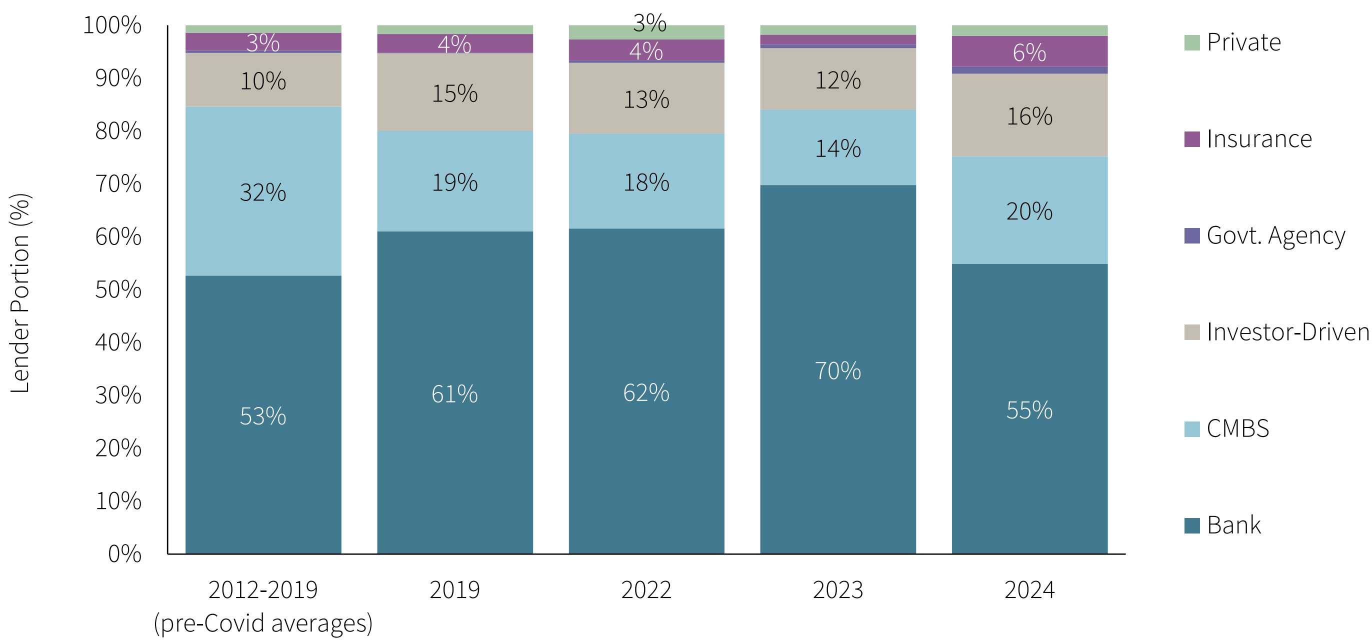


Source: JLL Research; Real Capital Analytics

Note: Transactions data includes only single-asset, hotel deals $5M+ excluding casinos. Loan origination data includes select-service and extended-stay hotel deals $5M+.

In 2024, the U.S. select-service and extended-stay hotel sector experienced significant shifts in lender composition. In the smaller transactions space, local banks and credit unions provide a considerable part of the market's liquidity, including for borrowers who benefit from Small Business Administration and other government loan guarantee programs. However, their share is decreasing, giving way to a more diverse lending landscape. Investor-driven lending rose from 12% in 2023 to 16% in 2024, likely due to falling interest rates coupled with the sector's robust, performance, profitability and durability. Insurance companies significantly boosted their loan origination volume in 2024 increasing it 3.4 times compared to the previous year. CMBS lending increased from 14% in 2023 to 20% in 2024, largely driven by an increase in refinancings. This diversification of lenders, which is approaching pre-Covid levels, indicates growing confidence in the sector. Anticipate the sector's lender composition to remain on par with pre-Covid averages in the medium term amid debt market clarity.

Portion of Select-Service & Extended-Stay Hotel Loan Origination Volume by Lender Type



Source: JLL Research; Real Capital Analytics
Notes: Loan origination data includes select-service and extended-stay hotel deals $5M+. Percentages that are 2% or below, are not shown on the bar chart.

Final Thoughts

In conclusion, the select-service and extended-stay hotel sector demonstrates remarkable resilience and growth potential for 2025 and beyond. With RevPAR reaching record highs and room night demand forecasted to surpass pre-pandemic levels in 2025, the sector is well-positioned for continued success. Its adaptability to changing consumer preferences, coupled with lean operating models and superior profit margins, makes it an attractive option for investors seeking strong, consistent returns even in challenging economic conditions.

The sector's ability to outpace inflation in profitability growth further enhances its appeal. Current supply constraints are likely to benefit existing properties. The proliferation of brands and strategic moves such as M&A and conversions indicate a dynamic and competitive landscape, with major hotel groups adapting to market conditions and seeking net unit growth.

Liquidity in the sector has reached unprecedented levels since 2021, with select-service and extended-stay hotels comprising nearly half of the total U.S. hotel investment volume. The sector's consistently higher yields and lower volatility compared to other commercial real estate sectors continue to attract diverse investors, from owner-operators to HNWIs and private equity firms.

While portfolio transactions have seen a temporary decline due to high interest rates, this trend is expected to reverse given recent reductions in rates and credit spreads. The lending landscape remains favorable, with a growing diversity of lenders showing confidence in the sector. As the industry navigates through evolving market conditions, the select-service and extended-stay hotel sector appears well-equipped to capitalize on its strengths and maintain its position as a robust and attractive investment opportunity in the years to come.

Research Authors

Zach Demuth
Global Head of Hotels Research
JLL Hotels & Hospitality Group
zachariah.demuth@jll.com

Ophelia Makis
Manager, Americas Hotels Research
JLL Hotels & Hospitality Group
ophelia.makis@jll.com

Contributors

Kevin Davis
CEO, Americas
JLL Hotels & Hospitality Group
k.davis@jll.com

Adam McGaughy
Senior Managing Director
JLL Hotels & Hospitality Group
adam.mcgaughy@jll.com

Daniel C. Peek
President, Americas
JLL Hotels & Hospitality Group
daniel.peek@jll.com

Ketan Patel
Managing Director
JLL Hotels & Hospitality Group
ketan.patel@jll.com

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