EARNINGS

Choice revises full-year RevPAR outlook down, citing demand softness across US

Brand company consolidates franchising model with purchase of remaining stake in Choice Hotels Canada

Choice has acquired the remaining 50% stake of Choice Hotels Canada from its joint-venture partner InnVest Hotels. Choice executives say the deal will allow the company to consolidate its franchising model and bring its newer brands to Canada. Pictured is the Grand Park Hotel & Suites Downtown Vancouver, Ascend Hotel Collection, in Vancouver, Alberta, Canada. (CoStar)

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Executives with Choice Hotels International acknowledged macroeconomic headwinds led to a tougher second quarter financially for the company's U.S. hotel portfolio.

Choice's domestic hotel revenue per available room decreased 2.9% year over year to $58.22 in the second quarter, according to its earnings report. Average daily rate at Choice's U.S. hotels fell 1.8% to $97.65, while occupancy decreased 70 basis points to 59.6%.

The Bethesda, Maryland-based hotel brand company subsequently revised its full-year 2025 outlook downward. Choice now projects 2025 domestic RevPAR change between a 3% decline and flat performance, whereas its prior outlook predicted a full-year RevPAR change between a 1% decline and 1% growth. Choice also lowered its outlook for 2025 net income to between $261 million and $276 million, which was down from the prior range of $275 million to $290 million.

During a conference call Wednesday, Choice Hotels President and CEO Patrick Pacious pointed to two main culprits behind the company's RevPAR forecast downgrade.

"The two headwinds — and the whole industry has experienced it — are really international inbound [demand to the U.S.] and government travel. Those are the two things that have sort of modestly set back RevPAR expectations," Pacious said.

But the "choppy" environment of the first two quarters is starting to clear up, Pacious said.

"The reason we're positive is if you look at the U.S. consumer — consumer confidence is trending up, credit card delinquencies are flat. We pointed out in our remarks that gas prices are lower — people are driving more than flying," he said. "And then you've had some pretty significant catalysts in the middle of the year here. You've got certainty now on tax reform. You've got a solid labor market, the trade policies are sort of settling out. Corporate profits are healthy. And then you've got these catalysts for growth, these significant investments in both infrastructure with [generative] AI and all of the efforts that we see going on around that, and then a reshoring of American manufacturing.

"You couple that with the limited hotel supply growth that the industry's seen for the last couple of years, and particularly in our segments, it gives us a lot of optimism about the future of RevPAR growth."

Pacious was asked how Choice's franchisees are adjusting their revenue strategy amid a softer demand environment across U.S. hotels. Historically, hoteliers have wrestled with when to lower ADR to induce demand and boost occupancy at the property level.

"The good news for us is that they are hanging on to occupancy and actually taking occupancy share gains, which is a reflection of the primarily limited-service nature of our brands," he said.

Plus, Choice's extended-stay brands are more resilient to economic cycle dynamics, Pacious added.

"Yes, we are in more revenue-intense segments, but that doesn't necessarily mean the cost per occupied room is higher. You look at extended stay, for instance, where the cost per occupied room is very low, but the revenue intensity of those brands is higher because of the length of stay and the room count in the hotel," he said. "So our owners have been managing through this time of uncertainty, looking to hold on to customers, and because of the limited-service nature of those brands, the profit margins on each room make sense for them. So we see it as a positive sign.

"And if you're well aware of past cycles, you know you need occupancy in order for rate gains to return, and so we're pretty pleased to see that occupancy is not dropping as well as rate. To have occupancy be stable or slightly up is a positive sign for the future."

Net-unit growth and Choice Canada deal

In the second quarter, Choice Hotels grew its net global rooms by 2.1% to 644,400, including a 3% increase in rooms to its global upscale, extended-stay and midscale brands. The company's global development pipeline exceeded 93,000 hotel rooms — including 77,000 hotel rooms in development in the U.S. — as of the end of the second quarter. Choice ended the quarter with 500,562 hotel rooms in the U.S., which is up 1.3% year over year, and 143,838 hotel rooms internationally.

As part of its second-quarter earnings report, Choice announced it acquired the remaining 50% stake in Choice Hotels Canada for $112 million from InnVest Hotels, one of its longtime joint-venture partners. The deal will consolidate Choice's operations in Canada as it transitions from a master franchising model to a direct franchising model. At the end of the second quarter, Choice's portfolio in Canada included 350 hotels and 30,000 rooms, with an additional 2,500 rooms in development.

Since its 2022 acquisition of Radisson Hotel Group's Americas division, Choice has spent the past few years integrating the Radisson brands into its own offerings and finding revenue synergies. This year, Choice executives are leveraging the Radisson portfolio to expand internationally.

"If you look at our mix today, post-acquisition of [Choice Hotels] Canada, we're now more direct franchising than master franchising across the international portfolio. ... We've been in Canada since 1955, built a great business there over the 70-year history, we had a 30-year great partnership with our joint-venture partner," Pacious said. "But since we acquired nine additional brands from

Radisson, we also have our Cambria brand and our extended-stay brands, bringing all of those to be supported by our existing Canadian team just makes a ton of sense."

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Second-quarter performance

Choice's adjusted earnings before interest, taxes, depreciation and amortization was $165 million in the second quarter, up from $162 million in the same quarter a year ago. Its total revenue reached $426.4 million, down 2% from the second quarter last year. The company's net income for the second quarter was $81.7 million, down 6.2% year over year.

Choice ended the second quarter with total available liquidity of $587.5 million. In the first half of 2025, Choice repurchased 811,000 shares of its stock for $110 million. Halfway through the year, Choice has 3 million shares left to repurchase as part of its current authorization.

As of publication time, Choice's stock price was trading at $124.85 per share, down 11.9% year to date. The NYSE Composite Index was up 7.3% for the same time period.

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