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Presentation

Operator

Good morning, and welcome to the Hilton Third Quarter 2026 Earnings Conference Call. [Operator Instructions] Please note this event is being recorded.

I would now like to turn the conference over to Mr. Charlie Ruehr, Vice President, Corporate Finance and Investor Relations. You may begin.

Charlie Ruehr

Vice President of Corporate Finance & Investor Relations

Thank you, Chuck. Welcome to Hilton's Third Quarter 2026 Earnings Call. Before we begin, we would like to remind you that our discussion this morning will include forward-looking statements. Actual results could differ materially from those indicated in the forward-looking statements, and forward-looking statements made today speak only to our expectations as of today. We undertake no obligation to update or revise these statements. For a discussion of some of the factors that could cause actual results to differ, please see the Risk Factors section of our most recently filed Form 10-K.

In addition, we will refer to certain non-GAAP financial measures on this call. You can find reconciliations of non-GAAP to GAAP financial measures discussed in today's call in our earnings press release and on our website at ir.hilton.com. This morning, Chris Nassetta, our President and Chief Executive Officer, will provide an overview of the current operating environment and the company's outlook. Kevin Jacobs, our Executive Vice President and Chief Financial Officer, will then review our third quarter results and discuss our expectations for the fourth quarter and full year. Following the remarks, we'll be happy to take your questions.

With that, I'm pleased to turn the call over to Chris.

Christopher J. Nassetta

President, CEO & Director

Thank you, Charlie, and good morning, everyone. We're pleased to report a strong third quarter with top and bottom line results exceeding our expectations. Strength in travel demand supported by favorable macro trends is driving RevPAR outperformance, a trend that we expect to continue into 2027. We continue to lead the industry with net unit growth at scale with the third quarter being our largest quarter of organic openings in our history with very strong momentum heading into the fourth quarter.

Our award-winning brands, strong commercial engines and powerful partnerships continue to further increase industry-leading market share, while a culture of innovation creates additional growth opportunities. Together, these drivers support meaningful free cash flow generation and shareholder returns, and we remain on track to return \$3.5 billion to shareholders for the full year. For the third quarter, system-wide RevPAR increased 5.8% year-over-year, with rate and occupancy growth, both ahead of expectations.

RevPAR outperformance reflected strength in business and group demand, continued momentum following the World Cup and favorable calendar and holiday shifts. Globally, business transient RevPAR was up 8.3%, driven by outperformance in the U.S. with continued strength in manufacturing, technology and workforce lodging that all grew more than 10%. Leisure transient RevPAR was up 1.6% as demand normalized following a strong summer travel period.

Group RevPAR was up 8.2%, driven by sequentially stronger demand from the second quarter, continued rate gains and favorable demand from social events and company meetings. For the full year, we now expect RevPAR growth of 4% to 4.5% as business transient momentum carries into the fourth quarter, particularly in the U.S., where supportive policy, increased private-sector investment—including AI—and ongoing public infrastructure spending are supporting demand.

In the U.S., we are seeing middle-class real wage growth despite higher inflation, contributing to broad-based strength we have described as a C-shaped economy. We believe we are uniquely positioned to benefit from this demand given our exposure to business travel, especially small and medium-sized companies. Looking beyond 2026, we remain optimistic about the strengthening demand backdrop, particularly given the close correlation between hotel demand in our segments and non-residential fixed investment or NRFI.

NRFI growth for the past 6 and soon to be 7 quarters has been growing nearly 2x faster than the average rate over the prior 20 years, providing an unusually strong and durable macroeconomic backdrop for our business. We expect continued growth in GDP and NRFI, together with historically low industry supply growth, to support strong RevPAR growth over the next several years.

Turning to development. We had another robust quarter of openings, adding more than 180 hotels and over 27,000 rooms to our system, our largest quarter ever for rooms added on an organic basis. Our luxury and lifestyle portfolios continue to grow the most quickly across categories with trailing 12-month net unit growth rates of 11% and 20%, respectively.

For the quarter, luxury and lifestyle openings comprised approximately 30% of total openings and included Conrad openings in Saudi Arabia and Japan and the debut of Canopy in Thailand, marking our 50th Canopy globally. Our collection brands continue to drive growth with the opening of nearly 20 Tapestry and Curio hotels across nearly all regions. Additionally, we surpassed 3,000 LXR rooms with the brand's debut in India, extending LXR's presence to this fast-growing region.

In the third quarter, we delivered conversion openings across 12 of our 28 brands, including the debut of DoubleTree in Singapore, the debut of Spark in Italy, and the conversion of 10 Select by Hilton Yotel properties across 4 countries. Over the last 12 months, we've converted hotels from almost 60 different brands into our system. Because our brands drive RevPAR index premiums, we believe there is significant opportunity to continue growing through conversions, with Europe being a strong example of that opportunity.

Independent non-branded hotels account for approximately 60% of the region's current supply, while Hilton represents just 2% of the region's supply. Across the system, conversions represented 37% of our openings this quarter, a trend we expect to continue as we execute against this opportunity. In the quarter, we signed approximately 30,000 rooms and are on pace to deliver mid-single-digit growth in signings for the full year, driven by strong signings in EMEA only 9 months into the year.

We increased our development pipeline to more than 543,000 rooms, growing both year-over-year and sequentially versus the second quarter with expansion in strategic markets and across chain scales. The pipeline now includes approximately 250 unique brand country combinations. In the quarter, we announced the signings of debuts of Outset Collection in Spain and Motto in Japan. We continue to expand Tempo's global footprint with new signings in Switzerland, Thailand, Saudi Arabia and additional U.S. markets. We also announced the signing of our first Signia Hilton on the Florida Gulf Coast, increasing the brand's pipeline to over 4,000 rooms and further accelerating its momentum.

We are also expanding our presence in the Nordics, where we recently announced the signing of a new Hilton in Copenhagen, the first hotel under a multiyear development agreement with Scandic Hotels Group, the region's largest hotel operator. The agreement creates new opportunities to grow in Sweden, Norway, Denmark and Finland, high-value markets that have historically been very difficult to enter while introducing more travelers to our brands and Hilton Honors.

System-wide new development construction starts continue to show incredible momentum, up over 40% year-over-year in the quarter with all regions independently up more than 20%. Nearly half of our pipeline is under construction, and we continue to have more rooms under construction than any other hotel company, accounting for nearly 20% of industry share and 3.5x our share of existing supply. Our disciplined development strategy continues to strengthen Hilton's competitive positions as owners choose to join the system to benefit from the RevPAR premiums our brands deliver and the value of our commercial platform.

We expect fourth quarter net unit additions to be above third quarter, delivering around the midpoint of our 6% to 7% range for 2026 and continuing to grow 6% to 7% annually over the next several years. Globally, Hilton is still less than 6% of supply, providing a long runway for continued growth. As technology continues to reshape every part of our lives and business in unprecedented ways, we believe our ability to connect the physical and digital elements of hospitality will create meaningful opportunities to harness the power of our proprietary technology platform across our business.

In the years to come, we believe technology will become an even greater strategic advantage for Hilton, empowering our team members, strengthening performance for our owners and making it easier for guests to experience the very best of Hilton. As we continue to further differentiate Hilton's technology from the competition, we recently announced the appointment of Jeff Moore as Chief Technology Officer. Jeff brings more than 2 decades of experience building and scaling consumer logistics and enterprise platforms for some of the world's most recognized brands.

We're excited for Jeff to help harness our industry-leading technology platform and to add to our existing talented leadership team. Keeping with this people-led tech-powered strategy last week, we announced that our listing exchange will move to NASDAQ, providing a platform aligned with our innovation and growth ambitions and positioning Hilton alongside some of the world's most innovative companies.

As we approach the end of 2026, we're pleased to report that we remain on track to deliver against the ranges we laid out for our key metrics at our 2024 Investor Day. Looking ahead, we are more confident than ever in our ability to drive algorithm growth over the next several years. This will be driven by continued net unit growth, new brand growth, RevPAR index gains and incremental non-RevPAR business opportunities.

Making all of this possible is our family of Hilton team members who continue to spread the light and warmth of hospitality in remarkable ways. Their dedication continues to earn global recognition with Hilton named the #1 Best Workplace by Great Place to Work in 21 countries this year more than ever before, in addition to recognition as the #1 best workplace in several regions, including Latin America, Asia and Europe.

In fact, just this week, we were named #1 on Great Place to Work's inaugural list of best workplaces in the hotel and resorts in the U.S., another meaningful recognition of the culture our team members create every day across all of our hotels. We remain highly optimistic about our business and the opportunities ahead globally in the years to come. Our strong leadership team, technology orientation, and brand-led, network-driven strategy gives us confidence in our ability to continue meeting the evolving needs of travelers and delivering strong returns to owners and shareholders.

Now I'll turn the call over to Kevin for a few more details on our results for the quarter and our outlook going forward.

Kevin J. Jacobs
Executive VP & Chief Financial Officer

Thanks, Chris, and good morning, everyone. During the quarter, system-wide RevPAR increased 5.8% versus the prior year on a comparable and currency neutral basis. Growth was driven by rate and occupancy, both being ahead of expectations, strength in business and group demand, continued momentum following the World Cup and favorable calendar and holiday shifts.

Adjusted EBITDA was \$1.058 billion in the third quarter, up 8.4% year-over-year and exceeding the high end of our guidance range. Growth was affected by significant renovations in the ownership portfolio, continued conflict in the Middle East, and performance of timeshare license fees and timing of other license fees. Management and franchise fees grew 9.5% year-over-year. For the quarter, diluted earnings per share adjusted for special items was \$2.45.

Turning to our regional performance. Third quarter comparable U.S. RevPAR increased 7%, driven by a strong World Cup and strong business and group demand that continued throughout the quarter. For full year 2026, we expect U.S. RevPAR growth to be in the mid-single digits. In the Americas outside the U.S., third quarter RevPAR increased 6.3% year-over-year, driven by strong group and business travel demand. Performance was led by Canada, Brazil and Argentina, all driven by rate strength. For full year 2026, we expect RevPAR growth to be in the mid-single digits.

In Europe, RevPAR grew 6.5% year-over-year, led by Continental Europe, with strong performance in the business and group segments. Turkiye, Eastern Europe and resort markets also delivered strong performance. For full year 2026, we expect RevPAR growth to be in the mid-single digits. In the Middle East and Africa region, RevPAR declined 5.6% year-over-year as conflict-related pressures in the region intensified during the quarter. We now expect full year RevPAR in the region to decline by a low double-digit percentage as the conflict continues to affect the fourth quarter high season and we faced challenging year-over-year comparisons.

In the Asia Pacific region, third quarter RevPAR was up 7.3% in APAC ex-China led by Southeast Asia, Japan and Korea. Business and group segments drove the strength in the region's performance. RevPAR in China declined 5.4% in the quarter, driven by a decline across all segments as consumer sentiment weighed on leisure and government restraints on business travel spilled into group demand. For full year 2026, we expect RevPAR growth in Asia Pacific to be in the low single digits, with RevPAR down low single digits in China.

Turning to development. As Chris mentioned, for the quarter, we saw net unit growth of 6.0%, with the opening of 27,000 rooms in the quarter, the highest quarter of organic openings in our history. Even in a record quarter of openings, our pipeline grew quarter-over-quarter and year-over-year and has now reached a record 543,000 rooms. We continue to have more rooms under construction than any other hotel company with approximately 1 in every 5 hotel rooms under construction globally, slated to join the Hilton portfolio. We expect fourth quarter net unit additions to be above the third quarter, ending the year around the midpoint of our 6% to 7% range for 2026. We also expect to grow 6% to 7% annually over the next several years.

Moving to guidance. For the fourth quarter, we expect system-wide RevPAR growth to be 3% to 3.5%. We expect adjusted EBITDA to be between \$1.047 billion and \$1.067 billion and diluted EPS adjusted for special items to be between \$2.32 and \$2.38, both displaying strong growth despite the effects of ongoing conflict in the Middle East, significant renovations in the ownership portfolio and lower expectations for timeshare license fees.

For the full year, we expect RevPAR growth between 4% and 4.5%, driven by continued business strength, especially in the U.S. We expect adjusted EBITDA of between \$4.06 billion and \$4.08 billion and diluted EPS adjusted for special items of between \$9.07 and \$9.13. Please note that our guidance ranges do not incorporate future share repurchases.

Moving on to capital return. We paid a cash dividend of \$0.15 per share during the third quarter for a total of \$34 million. Our Board also authorized a quarterly dividend of \$0.15 per share for the fourth quarter. For 2026, we expect to return approximately \$3.5 billion to shareholders in the form of buybacks and dividends. Further details on our third quarter results can be found in the earnings release we issued earlier this morning. This completes our prepared remarks. We would now like to open the line for any questions you may have. We would like to speak with as many of you as possible, so we ask that you limit yourself to one question. Chuck, can we have our first question, please?

Question and Answer

Operator

Today's first question will come from Dan Politzer with JPMorgan.

Daniel Brian Politzer

JPMorgan Chase & Co, Research Division

Chris, I think that it would be ideal to check on just some kind of the demand environment and how you're thinking about updated thoughts for 2027. It feels like a lot has changed from a lot of people on this call and their vantage point, but maybe you could kind of opine on how you're thinking about '27, the demand environment and kind of walk through the different buckets as you see the current customer base.

Christopher J. Nassetta

President, CEO & Director

Yes, happy to do it. And obviously, one of the most important questions that we can answer. I would say if you lift up, I mean, you heard everything that Kevin and I said about the third quarter, which was quite strong in terms of the fundamentals, demand growing at a great pace and supply continuing to be in our largest market in the U.S., quite muted, which is delivering a great result.

As we go into the fourth quarter, the RevPAR guidance is down, but that just has to do with elections and primarily to do with calendar shifts that benefited Q3 and hurt Q4. If you look underneath all that, things are getting better. As I sit in this very spot every Monday morning with my executive committee, everybody reporting from around the world, pretty much every week that we're talking, the demand patterns we feel better about.

And I'd say really continuing to be driven by business transient, where we're seeing really, really strong growth, both in large and corporates and SMBs, very good strength, as you saw in the quarter, in the group side, and continued strength in leisure transient. And so on the last call, I talked about like there's been a lot of noise this year with World Cup and year-over-year sort of comps.

And so what I tried to do is sort of lift up and say like, if you cleanse it all, what we're basically on a run rate basis seeing was in the second half of the year, we thought like 2.5%, 2%, 2.5%. That obviously -- well, maybe not obviously, we feel a lot better about it today. If you look at the run rate that we see in the second half of the year now versus a quarter ago, just given basic strength in the business, particularly led by the U.S. I think the U.S. run rate is more like 4%, and the global run rate is like 3.5%. So a lot better.

And I think it's as a result of all the things I talked about, like the basic macro setup is quite good. So the way -- and that's the basis for our 4% to 4.5% for this year. As I would think about next year, I mean, we're not -- we're in the early stages of budgets. We've been talking. We obviously see the current trends. I'll give you a directional sense of it. I think the way to think about it is, on a global basis, if the run rate is about 3.5%, you have things that are going back and forth.

The benefits, I think, are clearly, we see the U.S. continuing to pick up. I would hope and think that Mexico and the Middle East, which have been challenged this year, are going to normalize to a large degree, as with the case of Mexico, and I am hopeful to a large degree in the Middle East. We have seen stabilization in China, and I do think there's an opportunity to see some, not huge improvements, but some basic improvement from where we are. So I think all of those things are sort of helping.

And then you have the mathematical World Cup thing that you got to deal with just basically quarter-over-quarter and largely in the second quarter, but to a degree in the third quarter. When we do the math and we lift up and look at all of those things, the good things, and then the headwinds on comparability, I would say next year we feel pretty darn good that the global RevPAR numbers are going to be in the 3% to 4% range.

Operator

The next question will come from Lizzie Dove with Goldman Sachs.

Elizabeth Dove

Goldman Sachs Group, Inc., Research Division

I just wanted to ask on, I guess, flow-through and the algo, particularly as it looks to -- I think you called out some IMF impacts in HGV. I'm wondering if you could quantify that. And then I suppose as we look to next year, this year, I think you've had some headwinds, maybe on my math, \$60 million or so from Middle East, owned and leased renovations, HGV. And then as you look to next year, I think you could get, hopefully, as you said, a chunk of these back. And so I'm wondering how you think about that and whether that kind of sets up for more of an above algo year?

Christopher J. Nassetta
President, CEO & Director

Yes. I mean I made the comment in my prepared comments that we feel really good about delivering algo in the next few years. I wouldn't say that lightly. We generally deliver on what we say we're going to deliver on. I think you embedded in the question, I think you captured sort of what's going on sort of in the beat and the flow-through to the raise, and it really is as simple as what we put in the press release and what Kevin said in his comments, you have -- the Middle East is a little more beaten up than we thought and license fees in the timeshare segment are not performing at the level that we had expected and pretty much the difference, if you look at the flow-through, the 10 would have been 30, it's pretty equally split between those 2 things.

I think if you lift up, which, again, I like to do when you sort of talked about a \$60 million number. And the reason we feel confident in delivering algorithm is that it's actually at a minimum, probably \$60 million. This year, we have some unique, not structural, just sort of onetime related events that are impeding algorithm growth. Those are the Middle East and Mexico. Those are ultimately ownership, which you talked about, and HGV. If you add those 3 things together, and I'll come back to each of those sort of talked about it, it's probably \$60 million to \$70 million, maybe even a little bit more.

And so the way I think about it is, obviously, those things aren't producing this year. So I can't add them back in. But in my own mind, they are unique things that are not like structural impediments to the business. They're just happening. We can't control certain world events. And so I look at it as algorithm's alive and well. And as you think about the forward years, the reason we feel comfortable is the business is performing well. The unit growth, we feel really, really good about. The basic fundamentals on same-store growth, we feel really good about.

And as I said, I'm pretty confident Mexico is going to normalize. I think the Middle East will be a heck of a lot better next year than this year. I mean that's my view. Ownership will take a couple of years. But the reality is ownership is probably in and of itself, a \$20 million-plus drag this year when you look forward a few years, these are really, really good decisions. We're going to more than double the EBITDA contribution from those same assets because we're completely repositioning them.

And we feel really good about -- we're obviously in a constant dialogue with HGV. They have some integration that they've been dealing with the 2 big acquisitions and some comparability year-over-year issues, but we feel quite good about their ability to be sort of on algorithm growth as we think about the world going forward. So again, these are -- this is why we feel good about next year.

It's why I'm giving you sort of a -- we're effectively giving you a range in same-store and unit growth and bottom line without being specific in the sense that we believe that we will be able to deliver algorithm growth. And some of it will be because these things are normalizing. The only one that I think takes a little bit more time. It will certainly be better next year, but to get to the doubling of prior EBITDA will take 2 or 3 years on the ownership side.

Operator

The next question will come from Shaun Kelley with Bank of America.

Shaun Clisby Kelley
BofA Securities, Research Division

Chris, maybe to switch gears, multiple comments in there about the development environment and the NUG side and obviously, the organic additions are a huge accomplishment in this environment. So can we just talk a little bit more about what's underlying the confidence there? And maybe just put on the hat from the developer perspective a little bit.

We're in a world where I'm starting to get that question again about higher interest rates potentially weighing on development. But the flip side is now we've got this really strong RevPAR environment, which should effectively attract some new encouragement in the space. So if you could kind of put all that together for us, I would appreciate your thoughts.

Christopher J. Nassetta
President, CEO & Director

Yes. I mean there's a lot of swirl out there, obviously, Shaun, on the development side and competitors have said different things. All I can tell you is what we're seeing. And what we're seeing is real -- and we gave you a few of the data points, very strong growth. Our brands on the conversion side continue to perform really, really well. We're taking a disproportionate share within the industry of opportunities there. It will represent circa 40% of the growth this year. We feel like we have a lot of momentum going into next year.

And new construction starts, I gave you some of the quarterly data. But for the full year, we think new construction starts will be up -- well over 20% in the U.S. and well in the sort of mid- to high teens globally. Yes, interest rates are -- actually, in the last week, interest rates have come down a little bit, but interest rates are higher. My own bet would be a year from now that the 10-year will be lower. I said that a few weeks ago, I think, on stage with you. And so far, it's moving a little bit in the right direction.

But -- but in any event, what is, I think underpinning it is implied in the question you asked, which is the performance is getting so much better. I mean you're talking about a year, I think about like last year in the -- like system in the U.S. was like down 1.5 or 2. This year, you're going to have 600 or 700 basis point flip around, margins are growing. And yes, interest rates are higher. Cost to build is higher, but it hasn't -- that hasn't been going up at a crazy rate. People are still able to get things financed, probably not as much as they'd like. But they're obviously getting financed if our starts are up.

And this is self-serving, but true, we're more financeable. So in a world where not much is getting done, we just continue to take, I think, more and more share of the lesser amount that is getting done. And so, it's not easy. My development team, everybody listens to these calls. They're probably saying, "Why does he make our job seem so easy." It's not. They're out in the trenches, fighting and clawing and doing the great work that our development teams do. But we feel good about our -- where we're going to end up this year. We feel good about our 6% to 7% for the next few years.

I mean, you don't like -- I mean, one stat, which I love is that -- I mean, we talked about it is like we're 5.6% of the industry in the world, we're 20% of the rooms under construction. Like to have 6% or 7% growth over the next 15 or 20 years, you really only need to get like up high-single-digit, 10% when you do it mathematically of what's available. It's not like it's crazy. I know like 6% to 7%, how can you keep doing it? It's not -- it's a big world. We've got 28 brands. So, on average, we have 4 brands in all our major markets out of our 28.

And in most markets, we're a very, very low, much lower than the 5.6% in a lot of the major markets around the world. So honestly, I've never been more excited about our growth opportunities than I am today. I think we have the right brands. We're doing a few more things, and we're deploying those in the right markets. We continue to build extraordinary relationships with owners around the world, including importantly, our owner community here in the U.S. And it's our job, and we're going to do it.

Operator

The next question will come from Brandt Montour with Barclays.

Brandt Antoine Montour

Barclays Bank PLC, Research Division

So I wanted to ask about AI and maybe just to get your thoughts, Chris, on the rapid proliferation of Muse and consumer agents. How well are you set up today to accept direct bookings from these AI agents. What can you tell us about how fast this channel has grown for you so far and kind of put us in the position of the consumer? Do you think that from what you can see so far, these agents are set up to perhaps shift some share from OTAs to yourselves?

Christopher J. Nassetta

President, CEO & Director

Listen, I am very excited by what I see vis-a-vis Muse, Instinct and a whole bunch of other activities we're in the middle of. I think, it is really -- I will say this probably for a long time: I think we're in the very early days of this opportunity with AI, particularly in the distribution space. But I love what I see. You should assume we're working with each and every one of them. You can find our products pretty much everywhere, even in the newer plays, we're deep in the middle of that night.

And I think in the end, what's really important to us is that we continue to build great and direct relationships with our customers. And I think all of these tools, while it's early and it's insignificant, to be honest, right now in the industry in terms of -- what you see in terms of flow of traffic and dollars of bookings and all that, this is the future, just like the Internet was the future.

I mean when humans like things to be done fast and easy, particularly when they're done well and all of these products, while they're early and they're developing, I suspect there are going to be many more of them. They're going to be fast. They're going to be easy.

They're going to be very effective and humans like that, and they're going to trend to that. What I like about our setup is we have a really big platform. We believe we have the best products in the industry.

We drive the highest market share, which I think is pretty good evidence that customers really like what we do, and we're a very large -- we use the U.S. as a surrogate, like we think we're about 25% of the quality inventory in the United States of America, which we think gives us an extraordinary seat at the table as all of the ones that you're talking about, and I'm talking about and probably 20 others come into the market.

And so we're there early with everybody working with them to make sure that we're present. We have extraordinary teams that are working on content strategies. And last but not least, I do believe our tech stack is a huge competitive advantage. We have modernized our tech stack ahead of most, if not all. And I consistently hear from many of our counterparties that it's a lot easier for us to create direct connectivity. That's why we're able to do it and do it faster.

So I think in the end, this will be -- we will continue to have a big relationship with our OTA partners for a certain segment of our business. I don't think that's going away anytime soon. But I do think this -- these tools are ultimately going to lead to a path of our being able to drive much more direct business at lower cost structures, which will benefit us, but benefit our owner community, which is the most important element of it.

Operator

The next question will come from Steve Pizzella with Deutsche Bank.

Steven Donald Pizzella

Deutsche Bank AG, Research Division

Chris, recognizing it's only 1 week of data, but we saw select service RevPAR outperform luxury last week. Are you seeing any early signs that the C-shaped recovery is beginning to broaden? And can you remind us of Hilton's exposure and potential benefit from a recovery in select service?

Christopher J. Nassetta

President, CEO & Director

Yes. I mean I've talked about it a lot publicly and for a long time. I think I was talking about it during the summer of 2025, to be honest. Not that it was happening, but that it was going to happen simply because, again, I'd like to lift up. If you lift up and you looked at what was coming from a macro point of view, limited supply additions and huge growth rates in NRFI as a result of the massive investment cycle of AI, AI infrastructure, core infrastructure, all these things. It seems undeniable to be just rationally that that wouldn't happen. And so okay, it's happening.

And so we have been seeing the lower and the mid-section of the industry continue to pick up. Luxury has done well, too, slightly less well on a growth rate as it had been, but still quite strong. And so thus, the [indiscernible]. It's the mid and the bottom, particularly the mid continues to come up, really driven by business transient, which has just been on a tear. I mean, interestingly, business transient, when you really dig deep into the segmentation is approaching pre-COVID levels, which I know a lot of people said, "Oh, I never will, people aren't going to travel for business."

Well, we said they would and they are, and it's not quite there, but my guess is in the next couple of quarters, you're going to see it -- you're going to see it back to -- you're going to see segmentation generally back. So I think you'll continue to see this, but because like the whole thing on NRFI is and why it's been such a high correlation is when people are investing, people have to run around the country and do it and that is generally the middle class of our country that is making all of that happen -- they're building the data centers, the energy complex, the bridges, the highways. They're the ones that are making all this happen.

And so as long as you're seeing an NRFI at these elevated levels, which I think my own view is pretty unstoppable in the next at least couple of years, you're going to see the C-shaped thing keep going. I mean I think it's not because of politics at the moment being toxic with the midterm next Tuesday, that's why I put the comment. I mean we're actually -- I mean, it would be much higher if you didn't have the energy issue -- energy price increases related to the war in the Middle East.

But even with it, you have real wage growth in the middle class right now. Imagine what it would be if we -- if the Middle East sort of gets resolved at some level. But with or without that, you have enough investment, enough activity by the trillions in this country that I think you're going to continue to see an acceleration in those trends.

Operator

The next question will come from Stephen Grambling with Morgan Stanley.

Stephen White Grambling
Morgan Stanley, Research Division

I wanted to touch on franchisee relationships. Just given some of the noise around the franchisee/franchise relationships, Chris, could you talk to how you would frame your conversations with owners, including any feedback from lower charge-out rates that were started last year. If there's any opportunity to take those lower? And just maybe framing where owner margins or EBITDA per key are now perhaps versus history across the platform?

Christopher J. Nassetta
President, CEO & Director

Yes. I would say broadly -- and I've talked about this on a number of prior calls, it's been a rough extended period of time for owners. I mean there's just no 2 ways to -- other way to say it. You had pretty anemic growth and reasonably high expense growth pre-COVID. COVID was obviously terrible for everybody, but particularly the owners given the operating costs that they bear. You came out of COVID, you had the sugar high where it's like the government pushed out trillions of dollars to everybody -- nobody had to go to work. So it felt pretty good.

And then inflation spikes, demand as sort of a tepid and you had a couple 2 or 3 years where you were basically going backwards off of COVID, off the back of pre-COVID that wasn't particularly rosy. And so it's been a -- I'd say there's no other way of saying it. It's been a tough run. But having said that, my conversations with our franchise community, and we had our big owners conference this summer in Vegas. So we had thousands of them, and I'm talking to owners all the time. They're quite constructive.

And generally, I think they appreciate everything that we're doing. I mean, one, you have a backdrop, which is getting a lot better, right? Like all this, we're a pretty good index for the country. So when we're starting to produce these kinds of numbers and you're seeing really reasonable margin growth. I think the owner community, like anybody, when things are going better, I think people are happier.

I think the things that we did with what we call RISE and the reduction in system fees that we launched in June of 2025. So we started working on that in 2024. I think it's been really well received. We reduced loyalty costs for everybody by 30 bps, we gave 50 bps of those that got through customer satisfaction, quality gate, about half the system is getting through it. And honestly, I've heard nothing but really, really good feedback.

I haven't heard -- yes, I mean, by the way, people that aren't getting it want it, but that's the behavior set we want. Every hotel I walk into, if they're not in it, they're telling me what they're going to do to get it. So it's creating the right sort of outcomes, I think, for everybody. We're not done there. We have what we've told our owners, we're working on RISE 2.

I'm not going to get into in detail, but probably in the first quarter of next year, we'll be looking again at the system side, loyalty to figure out, all right, where can we by utilization of tech, AI, process change, the benefits of leveraging our scale, where do we think there are some ways that we can be even more efficient that can translate in a positive way to our owners. So I would expect that we'll be out in the first quarter with that.

And we'll never stop, meaning our job, like our -- of course, the customers that sleep in the hotels are critically important, but our owners are equally critically important. There is no Hilton without our owners, and there is no growth and there is no NUG unless they are doing well, feeling good and making the kind of profits that are commensurate with what they need to continue to invest in the hotel and to continue to invest potentially in new hotels and grow their business. So I think the summary of that is in my conversations with our broad owner community, they're quite constructive and people are starting to feel a lot better as you would think and hope they would as a result of sort of the macro conditions that we see as a backdrop.

Operator

The next question will come from Smedes Rose with Citi.

Smedes Rose
Citigroup Inc., Research Division

I appreciate your commentary around how 2027 could shape up from a RevPAR perspective. And I was wondering maybe if you could talk specifically about what you're seeing kind of in the U.S. on the group side, either with sort of larger corporate bookings or some of the strength in the smaller enterprises that you've talked about before?

Christopher J. Nassetta
President, CEO & Director

Yes, it continues to be quite strong. If you look at the big group managed hotels, at this point, we're up in the mid-single digits going into next year, something like that. So strong, again, if you were to -- somebody asked, I didn't really do this, but if you were to rank the performance by segment to get to that 3% to 4% next year, I think it will be business transient, group and leisure, all of which we believe will be positive but in that order.

And we think we've got quite a good backdrop on the group side. I mean group demand has generally been very good. And if you think about it, with supply having been really low for a long time, there just have not been a lot of group hotels that have been built in the United States of America. And that's the practical truth. High demand, not a lot of supply, generally, lots of economics are alive and well.

And so we feel quite good about it. But I do think business transient will lead the way again just because you're seeing a real surge there and you're going to get the benefit, we think, for a full year next year where this year, you're really sort of getting -- the real growth there has been kind of a half a year phenomenon.

Operator

The next question will come from David Katz with Jefferies.

David Brian Katz
Jefferies LLC, Research Division

From your public side advertising and reading through the release and obviously, our conversations, seems to be some building momentum around luxury, right? And I wanted one, for you, to just talk about that strategy a little bit. And two, conventional thinking is that, that sometimes requires increased investment. And just some color to that side of it also. And it's a topic I've been asking about for a long time and needed for completing Hilton's portfolio, et cetera.

Christopher J. Nassetta
President, CEO & Director

Yes. I mean at the risk of filibusters because it could take a while, I'll try to be succinct. Luxury and lifestyle, we have been talking about for lots of years. You're right, David, you and others have asked about it. And we have continued to invest and spend a lot of energy on it for all the right reasons. We think it does help create a halo effect for honors generally. And we feel like we have made really -- you heard some of the data on sort of recent performance, we think we've made really good performance.

I mean Waldorf is flying and doing extraordinarily well. We're going to open 5 or 6 of the best hotels in the world in the next 12, 15 months within Waldorf, but Conrad equally, LXR picking up a lot of momentum. And then all our lifestyle brands with more to come. I mean we have another -- which I've mentioned publicly in the Skunk Works right now that I would hope we would get out probably early next year, in the lifestyle space.

So that has been -- it's not a new focus. It's been a continued focus. I think we're just picking up momentum. I mean one of the interesting data points is this year between upper upscale and above, 45% of our deliveries this year will be represented in those categories. So it is working, and we are -- we can certainly this year, and I think generally have tilted that way. In terms of like the cost and key money, we did incrementally move our key money up, just to be clear on that.

I don't think -- I think key money has obviously always been more oriented to the high-end stuff. And key money generally has gone up a smidgen. I mean if I look at it like over the last 5 or 6 years, the percentage where we have any key money in our rooms under construction has moved 100 or 200 basis points, still unbelievably low. It's gone from 9 or 10 to 11. But the bigger deals are -- so it's very low. The bigger deals are where it gets spent.

This year, the CapEx -- we have a bunch of things going on. We have the ownership stuff which we've talked about, which is going to pay, we think huge dividends, and there's a little bit more waiting. We just are finishing, as we sit here, a reboot of our world headquarters and so there's a little bit more spending that goes on there. And a bit of key money, and if you read the recent press releases, you can see oriented towards a couple of specific deals.

If I look at where I think we'll end up relative to the averages, I don't think it will be a whole lot different than what we've spent over the last 5 or 10 years. I mean there'll be years where we spend more, where we have big unique opportunities like we've had and described many times before. There'll be years when it's lower, where we don't have those opportunities. But I don't think it requires -- in order for us to continue to push the envelope on luxury and lifestyle, I don't think it requires a step change relative to historical norms.

Operator

The next question will come from Robin Farley with UBS.

Robin Margaret Farley
UBS Investment Bank, Research Division

Just going back to the unit growth question. You answered part of it already, which is that your use of key money hasn't really changed. Just wanted to ask about unit growth given most other C corps have lower unit growth guide either last quarter or this quarter. And just thinking about your confidence with that 6% to 7% for next year, can you give us a sense of how much of that is already on the books in terms of it's under construction and so almost perfect visibility versus what percent are conversions that you're relying on? Like will it accelerate or decelerate from this year's conversions?

Christopher J. Nassetta
President, CEO & Director

I think the number is like what's on the books is a little over 80%. So we would need to do a similar amount, maybe not quite as much on conversions given what's on the books because over last year and this year, you've started to see new construction -- new development construction starts to go up. As that happens, I don't think we will have less success in conversions, but the mathematics will change as you have more new development, you'll see that ratio come down.

I mean, 40% is very high. Historically, it's been around 30%, if you look at long-term averages. My guess is, given we have a lot -- we're better at it, and we have a lot more brands, we can do conversions with, that we will end up probably in the mid-30s. But 80% plus, we think, is on the books. And we're quite -- it doesn't mean we're always right. We have a lot of work to do to get it done, but we're extraordinarily granular in our analysis of unit growth. We don't -- every single hotel is identified. Every region has very specific goals by brand. And so we feel good about it.

Robin Margaret Farley
UBS Investment Bank, Research Division

So just mathematically, if conversions are sort of the part where you have a little less visibility than new construction, you actually have -- it sounds like higher conviction in your '27 growth rate than you did going into '26 even just based on what...

Christopher J. Nassetta
President, CEO & Director

It's about the same. Well, I have more conviction in terms of what we're carrying over. It's actually -- I'll fact check myself. I'm looking at these guys. It's easier than this year because we have more new construction deliveries this year because of the ramp over the last couple of years. But by definition, I feel better about it because we have fewer than we have to fill in.

Operator

The next question will come from Meredith Jensen with HSBC.

Meredith Jane Prichard Jensen
HSBC Global Investment Research

I was hoping you might speak a little bit more about the technology side and prioritization of innovation with the appointment of the new CTO. And combined with, I think, some changes in the marketing leadership, how we might see the opportunities evolve there, how the approach towards guest experience, operations and things like that might evolve?

Christopher J. Nassetta
President, CEO & Director

Yes. That's great. Well, Jeff just got here Monday. So I'm going to give him a few more days to like get it together. But we're really excited about his joining. One important note, and I said it in my prepared comments is Michael Leiding, who has been our CIO

and his team have done an incredible job to put us in this position. And they're not going anywhere. By the way, Michael is here. He's remaining CIO, all we're doing is -- I'm doing is giving tech more oxygen by bringing somebody more senior at an EC executive committee level and reporting directly to me. Just to supplement the great work that is already going on.

And I think -- listen, we could talk for hours, and I won't because we're going to run out of time. But I think there are really 3 buckets, which I've talked about quite a lot that we're really focused on is, one, efficiencies in the system corporately, but also for the system we manage on behalf of owners. We're crazy not to. That can translate to benefits to shareholders, but most importantly, could translate—because the bulk of the cost structure for us is managing the system—it can translate into meaningful benefits to owners.

And so, we're spending a huge amount of time on that. Some of it's AI, some of it's tech, some of it's process change, but it's all interconnected and technology is a core enabler of all of that. We talked about it earlier on the call, the distribution side of the business. We're super focused there. We're super excited about the advent of all of these new ways, agents are going to make our lives easier and how we're going to connect with them with the goal, again, to be driving better customer experiences, more direct experiences at a lower cost that will translate into more profitability for owners. The more profitable owners are, obviously, the happier they are, but the more likely they are to build more hotels, which becomes a virtuous cycle.

And then to your question, I think on the customer experience side, there are some extraordinary things we're already doing and testing, in how we're connecting our whole tech ecosystem and connecting the physical and the digital that I think will afford us the opportunity when you wake up in the next 2, 3, 4, 5 years to revolutionize the way we go to market, to revolutionize the way we customize at mass scale, both how we sell, what we sell, the experience on property and problem resolution. I'm not going to get into a lot of specifics for lots of important competitive reasons. But we're very excited and that hopefully, you're a customer, you can see some of it already, the view that as a small down payment on what's to come.

Operator

The next question will come from Mike Bellisario with Baird.

Michael Joseph Bellisario

Robert W. Baird & Co. Incorporated, Research Division

Chris, on Europe, you noted a huge white space there for you. I guess a couple of parts here. What is owner sentiment like across the pond? And then what's the development dynamic there, just given some of the macro headwinds that are occurring and then also the indirect impacts from the Middle East just on both conversions and the new development front?

Christopher J. Nassetta

President, CEO & Director

Yes. I mean, obviously, Europe on the new development front has -- continues to be more difficult simply because the economics are harder, the financing markets aren't as robust. But we continue to have good success largely in the focus in the limited service space because that's what makes economic sense. But as I said in my prepared comments, I mean, if you think about Europe, 60% over the pond of the inventory is basically independent hotels, and we're a fly spec in terms of our overall market share.

And so it won't be all conversions, but I think if there will be a heavy component of conversions in that environment to soft brands, hard brands, sort of things across the spectrum. I would say owner sentiment is quite good throughout -- I mean, every -- Europe is a big place. So I mean, I hate to generalize, but I'd say quite good and not surprisingly driven by performance.

Performance in Europe, while many of the European economies have not been extraordinarily robust and are not maybe experiencing quite the surge that we are now starting to see in the U.S. from a travel point and tourism point of view, they've been really strong for an extended period of time, and they continue to maintain that strength.

Obviously, with things going on in Eastern Europe and now the Middle East, which they're a lot closer to, people are rattled a bit. But from a development point of view, from a same-store point of view, we're going to have a terrific year in Europe. And from a development point of view, we're going to have one of our best years ever. So I'd say sentiment is broadly good.

Operator

And this will conclude our question-and-answer session. I would like to turn the conference back over to Mr. Chris Nassetta for any additional or closing remarks. Please go ahead.

Christopher J. Nassetta

President, CEO & Director

Thank you, Chuck, and thank you, as always, for taking an hour out of your life and listening to where we -- our results, but more importantly, where we think the world is going. As I said, we feel really good about what we've been able to deliver, even better about what's to come, and we'll look forward to updating you after we close out the year. Take care, and have a great day.

Operator

This concludes today's conference call. Thank you for your participation. You may now disconnect.