

Lucrum Hospitis

Hotel Guests Are Back, but Profitability Is Under Pressure

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Introduction

The Romans called it ***Lucrum Hospitis*** — the host's profit. Hotel guests are back, but what about profits? The hotel industry has been challenged on multiple fronts during the past decade and continues to evolve in response to a host of operational and demand headwinds.

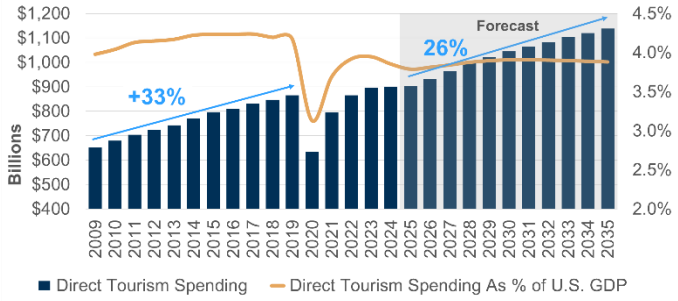
Direct travel spending grew at a steady rate in the two years before the pandemic, but occupancy was devastated during widespread COVID-19 shutdowns. Total leisure & hospitality gross domestic product growth (GDP), a proxy for travel spending, grew 12.2% between 2015-2019 compared to overall GDP growth of 13.4%.[1] As travel bans were lifted and tourists emerged from their homes in late 2020, the hospitality sector began a rapid recovery that culminated in a 42% surge in direct travel spending between 2020 and 2025. This pent-up demand helped power a nearly 18% increase in aggregate economic output in the aftermath of the pandemic.

Yet, all that growth came at a steep cost for the hospitality industry, which is more operationally intensive than the main property sectors. Hotel owners have been under pressure since the pandemic owing to the significant rise in labor costs, a dynamic that's been exacerbated since early 2025 due to a sharp reduction in immigration. That feeds directly into higher operating expenses, as the Census Bureau shows that foreign-born workers made up 21.4% of leisure and hospitality workers in 2024, above the 19.1% rate for all jobs. What's more, Green Street estimates that aggregate labor expenses eat into roughly 35% of hospitality revenue and the sector is the most sensitive to increases in direct labor costs.

Revenues and Labor Costs Trending Higher

The U.S. hospitality industry's share of total economic output hovered around 4% until the pandemic hit, bottoming at just over 3% in 2020.[2] As the U.S. economy began to fully reopen the following year and consumers deployed their accumulated savings, annual tourism spending eventually eclipsed its pre-pandemic total in 2022 with a total of $865 billion. Although top-line growth was impressive, operators' enthusiasm was tempered by upward pressure on labor costs.

Figure 1: Direct Tourism Spending as a Percentage of GDP



Source: U.S. Bureau of Economic Analysis

Since the end of 2020, weekly average wages across the Accommodation and Food Services category grew at a compound annual growth rate of 6.5% nationally. Many of the Sunbelt markets that led in direct travel spending growth also posted above average gains in weekly wages, such as Orlando (9.5% CAGR), Miami (8.7%), Nashville (8.3%), Charleston (7.1%), and Las Vegas (6.7%).

[1] U.S. Bureau of Economic Analysis via Oxford Economics

[2] U.S. Bureau of Economic Analysis via Oxford Economics

Nashville, Orlando, and Las Vegas

Nashville, Orlando, and Las Vegas posted the strongest growth in leisure & hospitality GDP since 2020. Nashville and Las Vegas focused on long-standing efforts to diversify their entertainment offerings and broaden their appeal to the traveling masses. Meanwhile, Orlando relied on its family-friendly attractions and introduction of new rides and experiences to rapidly bounce back from pandemic closures. Beyond leisure travel, Nashville and Las Vegas are also top destinations for domestic migration – both metropolitan areas were among the 20 fastest growing for population growth between April 2020 and July 2025.[3] Conversely, Orlando's population gains, have been fueled far more by international migration.

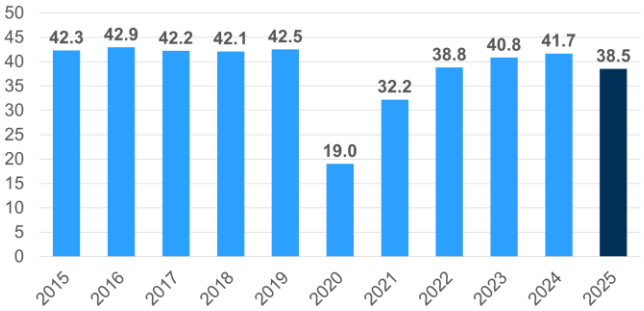
The Nashville metropolitan area led the nation in growth of its tourism industry. The Music City saw its share of direct travel spending as a percentage of gross domestic product increase by 130 basis points to 6.2% in the past decade, more than double the next market (Honolulu's 61 basis points increase). Commensurate with that growth, Nashville's leisure and hospitality workforce expanded by 50% to 37,000 and now accounts for 3.5% of the area's total employment. That allowed the region to recover swiftly from the pandemic-induced closures, vaulting Nashville to the top spot in direct travel spending growth in the past five years.

Nashville is no longer viewed as only a country music mecca but a market boasting vibrant entertainment districts, festivals, and sporting events. The opening of the Music City Center convention complex in 2013 served as a catalyst for growth downtown, as the venue has benefited recently from a wave of corporate relocations.

On the other hand, Orlando doubled down on its warm weather appeal and abundance of large family attractions to attract visitors. The city was the recipient of Florida's comparatively early reopening policies in 2020, offering domestic travelers a summer getaway even as other states were more cautious coming out of lockdowns.

Theme parks and other premier destinations quickly resumed operations after closing in mid-March 2020; Universal Orlando Resort was the first to reopen its doors in early June. Momentum kept building and Orlando eventually welcomed 74 million visitors in 2022, recovering to roughly 98% of pre-pandemic levels.[4]

Figure 3: Las Vegas Total Visitors (Millions)



Source: Las Vegas Convention and Visitors Authority; Harry Reid International Airport; Nevada Department of Transportation; Nevada Gaming Control Board

Meanwhile, industry stalwart Las Vegas continued its transformation from a pure gambling hub into a diverse economy centered around hospitality, entertainment, and conventions, a topic that New York Life explored in detail in a CRE Finance World article as far back as 2017.[5]

Figure 2

Hospitality Industry's Pandemic Recovery by Market

Rank	Market	L&H GDP Growth 2020-2025	RevPAR Growth 2020-2025	Rank	Market	L&H GDP Growth 2020-2025	RevPAR Growth 2020-2025	Rank	Market	L&H GDP Growth 2020-2025	RevPAR Growth 2020-2025
1	Nashville - TN	97.5%	168.9%	26	Charlotte - NC	45.1%	133.5%	50	Houston - TX	37.3%	103.2%
2	Orlando - FL	67.2%	176.0%	27	Atlanta - GA	44.7%	92.4%	51	Inland Empire - CA	37.2%	60.3%
3	Las Vegas - NV	65.2%	141.2%	28	Seattle - WA	44.6%	207.9%	52	Minneapolis - MN	36.6%	175.6%
4	Charleston - SC	59.9%	146.4%	29	Phoenix - AZ	43.5%	100.6%	53	El Paso - TX	36.6%	61.2%
5	Knoxville - TN	58.9%	111.2%	30	Norfolk/Virginia Beach - VA	43.4%	87.4%	54	Cincinnati - OH	36.1%	107.1%
6	Miami - FL	58.5%	105.3%	31	Milwaukee - WI	43.2%	143.5%	55	Indianapolis - IN	36.0%	138.6%
7	Hawaii/Kauai Islands	57.8%	243.0%	32	McAllen/Brownsville - TX	42.4%	40.6%	56	Louisville - KY	35.7%	158.6%
8	Baltimore - MD	55.3%	116.6%	**US**	**United States**	**42.3%**	**120.8%**	57	Rochester - NY	32.4%	149.1%
9	Boston - MA	54.3%	298.4%	33	Jacksonville - FL	42.3%	75.6%	58	Cleveland - OH	32.1%	163.6%
10	Denver - CO	53.3%	143.6%	34	Dallas - TX	42.1%	125.3%	59	Greensboro/Winston Salem - NC	32.0%	116.5%
11	New York - NY	52.8%	279.1%	35	Richmond/Petersburg - VA	41.2%	101.3%	60	Fort Myers - FL	31.8%	44.4%
12	Grand Rapids & Michigan West	52.5%	107.8%	36	Albany - NY	40.6%	157.2%	61	Birmingham - AL	31.4%	93.3%
13	Washington - DC	50.7%	198.9%	37	Los Angeles - CA	40.5%	111.4%	62	Omaha - NE	30.9%	122.1%
14	Salt Lake City/Ogden - UT	49.7%	141.9%	38	Saint Louis - MO	40.3%	151.3%	63	Raleigh/Durham/Chapel Hill - NC	30.6%	135.1%
15	Albuquerque - NM	48.9%	122.4%	39	Columbia - SC	40.2%	103.2%	64	Memphis - TN	29.4%	70.7%
16	Chicago - IL	48.5%	255.4%	40	Pittsburgh - PA	40.2%	170.6%	65	Columbus - OH	24.9%	147.0%
17	Philadelphia - PA	48.5%	126.1%	41	San Antonio - TX	39.9%	106.9%	66	Dayton/Springfield - OH	23.9%	101.0%
18	Sarasota - FL	48.1%	111.3%	42	New Orleans - LA	39.3%	114.7%	67	Oklahoma City - OK	22.3%	86.3%
19	Greenville/Spartanburg - SC	47.6%	118.5%	43	Sacramento - CA	38.7%	73.3%	68	Little Rock - AR	20.4%	71.6%
20	Colorado Springs - CO	47.3%	49.1%	44	Buffalo - NY	38.2%	197.8%	69	Tulsa - OK	15.1%	96.8%
21	Austin - TX	47.0%	138.2%	45	Portland - OR	38.1%	106.6%	70	San Francisco/San Mateo - CA	(3.1%)	114.7%
22	Detroit - MI	47.0%	95.4%	46	Savannah - GA	37.9%	105.0%				
23	San Diego - CA	46.6%	143.5%	47	San Jose/Santa Cruz - CA	37.9%	119.5%				
24	Hartford - CT	45.9%	144.7%	48	Tucson - AZ	37.4%	76.2%				
25	Tampa Bay - FL	45.4%	112.2%	49	Kansas City - MO	37.4%	144.8%				

Note: Leisure & Hospitality (L&H) GDP is comprised of Accommodation & Food Services and Arts, Entertainment & Recreation categories.
Source: CoStar Group, U.S. Bureau of Economic Analysis via Oxford Economics

[3] U.S. Census Bureau
[4] Stephens Jr., D. C. (2024, February 7). *Orlando Hotel Market: Recovery and Evolution.* HVS Global Hospitality Services.
[5] Rubin, S. (Winter 2017). The Las Vegas Metamorphosis – From Gaming to Entertainment Destination. CRE Finance World.

Instead of its dependence on the old model of casino as the main revenue generator, the city increasingly targets higher-income travelers looking for premium experiences beyond gambling. The latest figures show that while 2025 gross gaming revenue on the Las Vegas Strip totaled $8.6 billion[6], up 30% from 2019, gaming now comprises less than one-third of Strip resort revenue. An expanded convention menu, a plethora of sports offerings, and large concerts have visitors spending more, even as overall visitor numbers have not recovered to pre-pandemic levels.

Hotel developers had taken notice and sought to capitalize on outsized returns throughout the Nashville metropolitan area, expanding the total inventory by 53% in the last 10 years, with a clear preference for the central business district (9,200 rooms) and Midtown (4,600 rooms). Orlando's room count expanded by 9.5% during the past decade, in line with the U.S. average (9.9%). Meanwhile, the mature Las Vegas market saw much more subdued inventory expansion, with less than 3,900 rooms completed (~2.4% increase from April 2016).

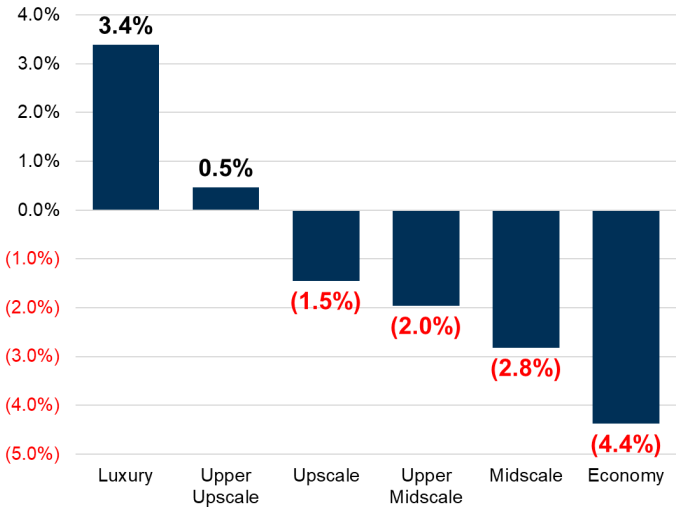
Looking ahead, many of the same markets will continue to see tourism comprise a larger share of their local economies. Honolulu, Nashville, and Charleston are expected to lead the way over the next five years, while industry heavyweight Las Vegas is likely to see more muted gains. However, while growth trajectories are generally positive, an uneven macroeconomic backdrop may challenge operators of properties tailoring to middle-income travelers.

Travel Budgets Begin To Tighten

Hotel performance overall was bifurcated in 2025, with national revenue per available room (RevPAR), a key industry metric, increasing in the luxury and upper upscale class while declining across the midscale and economy segments. Lower-income households were challenged by higher prices for necessities, weighing on travel budgets and performance of value-oriented properties.

RevPAR growth in the midscale & economy category stalled last year after peaking in March 2023 at more than $50; it has since declined 7% to less than $47 as of March 2026[7]. Conversely, RevPAR across the luxury & upper upscale and upscale & upper midscale segment advanced by 6.8% and 2.5%, respectively, during the past three years.

Figure 4: Hotel Performance by Class
(RevPAR, Annual Change 2024 to 2025)



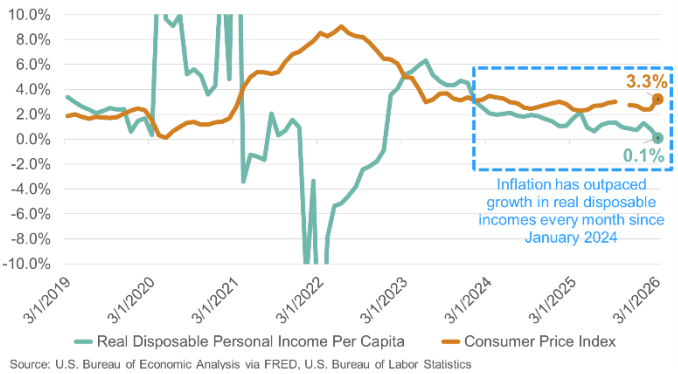
Source: CoStar Group

Group bookings led the way in 2025, as a continued recovery in corporate meetings and events allowed hotel owners to increase average daily rates (ADR) 3.9% from the prior year. Tangentially, business travel remained a positive catalyst for growth in nightly rates, which rose 1.7% last year. Meanwhile, the leisure segment was a notable laggard in 2025, as household budgets have been strained from years of stubbornly high consumer prices. Average daily rate growth was negative across the mid and low tiers price points, though high-end operators enjoyed stronger pricing power (+1.2%).

This backdrop is not unique to the hospitality industry. Consumers across the economy have been pinched by stagnant wages and rising costs of living, where shelter expenses command an ever-higher share of household budgets. This has naturally manifested in less dollars available for leisure travel. Conversely, affluent households are thriving, benefitting from stock market wealth and home equity gains as drivers of spending.[8] This dichotomy in economic fortunes largely explains the outperformance between high-end leisure hotels and lower-price tiers.

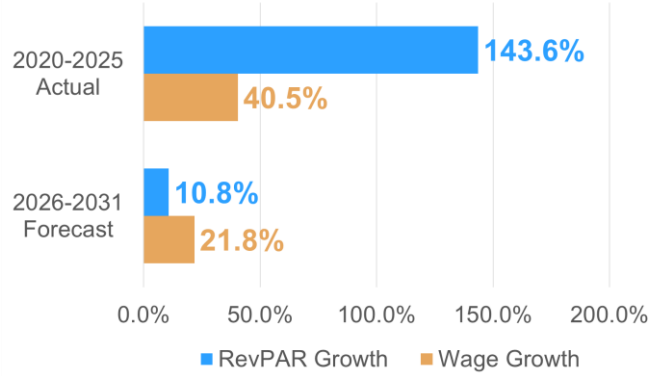
[6] American Gaming Association's State of the States 2026 Report
[7] CoStar Group
[8] Rubin, S., Wnek, M., and Swett, M. (Spring 2026). Income Inequality and the Implications for CRE. CRE Finance World.

Figure 5: Real Disposable Personal Income Per Capita vs Consumer Price Index
(Year Over Year Monthly Change)



Source: U.S. Bureau of Economic Analysis via FRED, U.S. Bureau of Labor Statistics

Figure 6: Leisure & Hospitality Wage Growth vs RevPAR Growth
(20 Largest Hospitality Markets*)



*Note: Analysis is comprised of a blended list of 10 largest U.S. markets by room count + 10 largest U.S. markets with highest concentrations of leisure & hospitality spending as a percentage of each market's total GDP.
Source: Oxford Economics, CoStar Group

Margin Pressures

Although tourism dollars continue to flow, maintaining consistent profitability in an environment of rapidly rising operating costs remains a challenge for operators. An analysis of wage growth trends and forecasts paired with corresponding RevPAR data shows the stark picture emerging for hotel operators across the country's largest hospitality markets.

Between 2020 and 2025, twelve-month RevPAR jumped by 144% on average across the 20 biggest markets, handily outpacing average wage growth of 41% during this period[9]. Notably, RevPAR growth was higher than wage growth across all markets in the study, with the largest spread between the two measures recorded in Chicago, Hawaii, Rhode Island, Nashville, and Orlando.

This backdrop contrasts sharply with the outlook over the next five years. In a significant reversal from the post-pandemic recovery period, wage growth will outpace RevPAR gains in every market, according to New York Life's analysis of Oxford Economics and CoStar Group data. The top hospitality markets are expected to see RevPAR grow by 11% through 2031, led by Los Angeles (20.4%) and Miami (16.0%). However, the group will see continued pressure on wages, with labor costs registering a projected 22% increase.

Pressure on profitability is expected to be most acute in Savannah, Knoxville, and Sarasota. Each of these markets faces wage growth of at least 23% over the next five years, as well as future supply additions well in excess of room demand growth.

The supply-demand imbalance may be especially pronounced in Savannah, where occupancy metrics have been decelerating over the past two years. The market's inventory growth has outpaced demand on a trailing 12-month basis since August 2024, a dynamic that's expected to persist at least through 2027 – more than 2,000 rooms are under construction across 17 hotels, representing approximately 10% of existing inventory.[10]

Normalizing top-line growth across the hospitality industry will be accompanied by persistent upward pressure on wages. Employment remains below pre-pandemic levels, as many workers abandoned the industry to seek more predictable schedules and higher wages, with many transitioning into warehousing and delivery services for perceived stability. Additionally, tighter immigration enforcement over the past year sharply curtailed a critical supply of talent, leaving hotel operators to increasingly rely on automation software for scheduling and to boost recruitment with retention bonuses and flexible shifts.

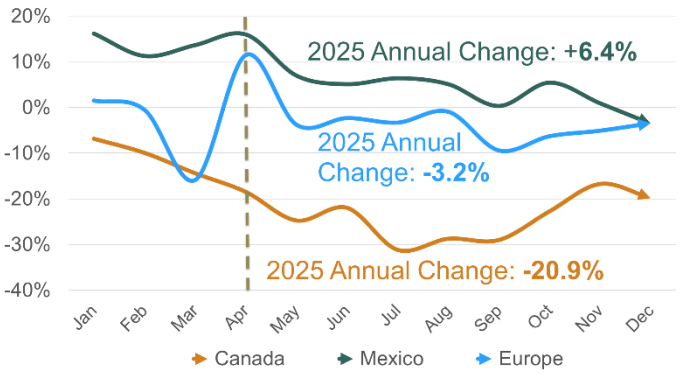
Demand Headwinds on the Horizon

Hotel markets across the country have rebounded since the worst of the pandemic, introducing varied entertainment concepts to draw in visitors and revitalize local economies. While hotel market fundamentals are generally healthy, multiple downside risks are manifesting that may curtail demand in the years ahead.

A major headwind to overall hotel demand over the past year has been the decline in total U.S. arrivals – down 5.5% last year, led by a 21% drop in Canadian travelers.[11] To the extent this slowdown persists, it will weigh on states that have historically enjoyed a greater share of visits from Canada and Europe including Florida, New York, Nevada, and California.

[9] CoStar Group
[10] CoStar Group
[11] U.S. International Trade Administration

Figure 7: 2025 Monthly International Arrivals Into U.S.
(Year Over Year Change)



Source: U.S. International Trade Administration

Smooth Sailing Through Calm Seas?

Implications of Cruise Industry Growth on Hotel Demand

Competition for vacation dollars in today's environment stresses value and to some, a bundled cruise experience can be an attractive alternative to a land-based stay where travel, accommodation, and food are itemized and more costly.

The latest data from the Cruise Lines International Association shows that North American passenger volume in 2024 totaled 20.5 million, representing growth of 33% from 2019 levels.

Industry forecasts anticipate that roughly 42 million global passengers will set sail in 2028, or more than 21% than in 2024, buoyed by enthusiasm among forever cruisers and potential new cruisers. Additionally, more than two-thirds of international travelers are considering taking their first cruise, which may divert future demand away from land-based experiences.

With that said, the industry must remain vigilant in maintaining sufficient health protocols to discourage the spread of pathogens, as evidenced by the recent outbreak of hantavirus.



More recently, percolating price pressures are shifting travel dynamics. The Travel Price Index from the U.S. Travel Association ended March at 372.3, up 5.8% year over year. The Transportation sub-index is responsible for much of the increase, as rising energy costs stemming from the Iran war have impacted the Motor Fuel (+19.2%) and Airline Fares (+14.9%) components. This may serve as a brake check on family trips by raising the cost of travel, especially for international tourists who may opt to stay closer to home.

These budding cost pressures have important ramifications for summer and fall travel. The extent of the impact will be determined by geopolitical forces shaping energy markets and hotel operators' willingness to push rate levels to maximize occupancy. Corporate transient travel budgets are typically inelastic since businesses are reluctant to limit their sales and client services teams from hitting the road. Group travel budgets are much more likely to be affected, as businesses may become more selective in leaning on virtual meetings in lieu of in-person gatherings and industry events.

Conclusion

Nationwide, performance data reveals that even as top-line growth has mostly recovered, hotel operators are confronted with evolving demand patterns and cost pressures influenced by broad macroeconomic forces (incomes and labor markets) and geopolitical developments (increasing transportation costs). Consumers and businesses alike are cognizant of rising prices and will adjust their travel plans accordingly.

Looking ahead, we anticipate operating margins across the hospitality industry to be under pressure in the near term, due mostly to the persistent rise in labor expenses and muted demand in the midscale and economy categories. With that said, cost inflation varies by region and hotel class, underscoring the need for management to remain highly flexible and responsive to shifting demand dynamics. Successful operators will prove adept at fine tuning expense costs and adjusting daily rates without sacrificing occupancy.

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