MARKET REPORT

Hotel Profitability in Transition: Cost Pressures and Budgeting Priorities for 2026

DECEMBER 19, 2025

Recent HVS data show gross operating profit margins declining broadly, driven by increases in labor, operating standards, and shared-service allocations. With ADR growth anticipated to flatten, revenue can no longer absorb rising costs. As hotels convert less revenue into profit, owners must rely on active asset management, benchmarking, and operational realignment to protect NOI in 2026.

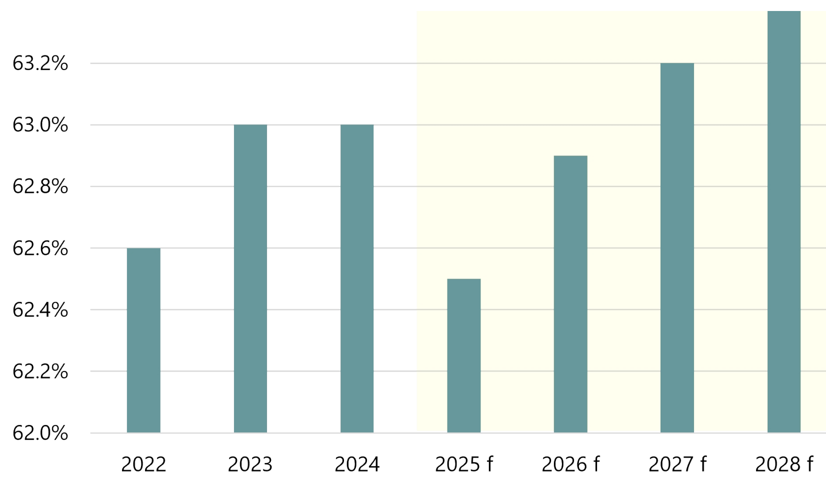
As the end of 2025 approaches, hotel owners, asset managers, and operators are preparing next year's budgets in an uncertain environment where operating costs have reached new highs and revenue growth has slowed. The post-pandemic RevPAR surge has largely normalized, but wages and salaries, insurance premiums, utilities, and brand/operator-related expenses continue to climb, and the result is a noticeable compression of gross operating profit (GOP).

For most owners, the goal of the 2026 fiscal year is a shift from recovering revenue to preserving profitability margins while maintaining service levels. In the years since the COVID-19 pandemic, the expense base has permanently increased, driven by structural factors including labor models, evolving brand standards, operator requirements, and guest expectations for more service with fewer efficiency offsets. This article examines the causes of the recent cost escalation and outlines what owners can do to protect returns heading into 2026 and beyond.

Understanding Structural vs. Cyclical Cost Pressures

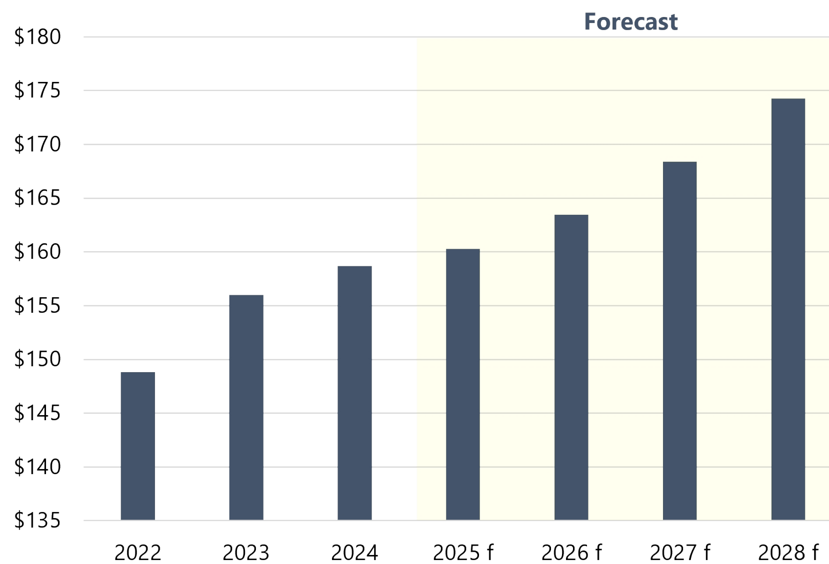
While demand has remained steady in 2025, topline performance has clearly flattened. HVS data through mid-year 2025 shows occupancy dipping in 2025 and ADR increases moderating after several years of strong post-pandemic recovery. Together, these trends indicate that revenue growth alone will no longer offset rising expenses, setting the stage for a more cost-sensitive operating environment.

Occupancy Anticipated to Dip in 2025/26 Before Rebounding



Source: CoStar/STR (Historical), HVS (Forecast as of August 2025)

ADR Growth Slowing



Source: CoStar/STR (Historical), HVS (Forecast as of August 2025)

Not all expense growth is driven by the same forces. Some of the pressures owners are seeing today are tied to short-term economic conditions, while others reflect a more permanent shift in how hotels have operated since the pandemic. Understanding that distinction is important when determining which cost pressures can be weathered and which ones need to be actively corrected at the asset level.

Cyclical (Short-Term) Pressures

These are macro-driven and more likely to moderate over time:

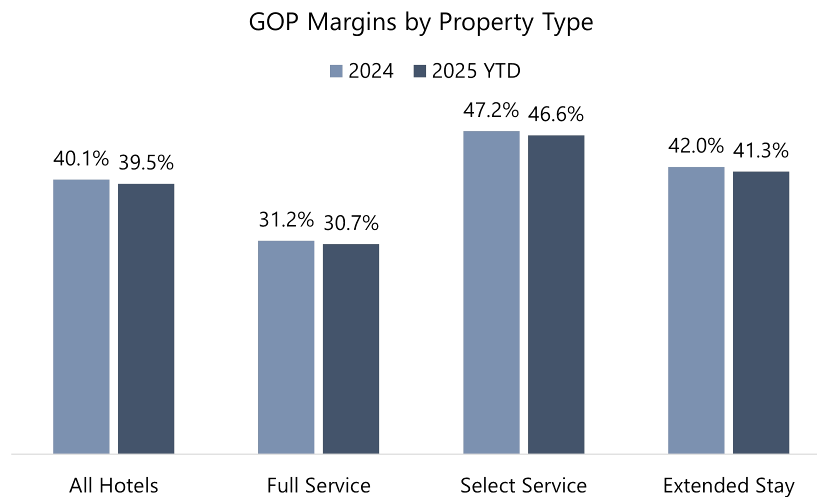
- Tariff- and supply-chain-driven inflation on goods, FF&E inputs, and certain food categories
- Insurance and utilities volatility tied to capital markets and climate-risk pricing
- Lower demand in select submarkets caused by travel mix shifts rather than structural decline

Structural (Persistent) Pressures
These are embedded in the operating model and will not unwind without owner action:

- Outdated labor structure and role design, as wages have increased rapidly since 2020, while staffing models still reflect pre-pandemic service assumptions
- Brand-mandated operating requirements that carry cost but no measurable ROI for the owner
- Fixed operating practices (e.g., coverage levels, amenity scope, scheduling) that no longer match guest behavior
- Shared-service allocations that have grown over time—centralized revenue management, marketing, or accounting fees charged to owners should be reviewed to ensure they align with actual value delivered to the hotel

A survey of internal HVS data indicates that GOP margins are declining across all property types for the year-to-date period through August 2025 when compared with 2024 data.

GOP Margins at All Property Types Declining in YTD 2025



Source: Internal HVS Database of U.S. Hotel Gross Operating Profit Margins

The above data points explain why owners are feeling profitability compression even without a revenue downturn: hotels' expense base has reset higher since the pandemic, while RevPAR growth has softened and now trails inflation in most markets. The takeaway is that cyclical pressures can be monitored, but structural pressures need to be addressed now. If they are not, they become the new baseline going into 2026 and beyond.

Labor Costs: A Drag on GOP?

Labor remains the largest expense line in a hotel profit and loss statement (P&L) and has increased steadily at hotels and other businesses across country in recent years. The challenge for owners and asset managers is not just wage inflation but also the structure of the labor model itself. Even with stable occupancy, labor costs continue to rise because staffing patterns have not been recalibrated to the increases in labor costs and the way guests actually use hotels today.

According to Bureau of Labor Statistics data, salaries, wages, and payroll-related expenses for the Accommodation and Food Service industry have increased significantly between calendar-year 2020 and calendar-year 2024. Total compensation increased 26.5% between 2020 and 2024, outpacing the increase in the Consumer Price Index for the same period. Going forward, labor expense growth is expected to continue while ADR growth moderates, which means each incremental increase in labor burden directly reduces GOP.

Rising Labor Costs Evident Since 2020

Source: Bureau of Labor Statistics, U.S. Department of Labor

There are three primary reasons labor has become a structural pressure rather than a cyclical one:

1. **Outdated staffing models**—Staffing positions were restored post-pandemic without redesigning service delivery.
2. **Schedules tied to standards, not demand**—Labor hours typically follow brand or operator SOP requirements rather than being tailored to guest demand and usage.
3. **Departmental silos**—Historically, there has been limited cross-training in hotels, which keeps operational roles fixed even when volume drops.

The result is that even small deviations in revenue flow straight into margin erosion. Operators feel this as staffing pressure; owners feel it as profitability compression. While wage inflation may moderate in the coming years, the labor model itself will not correct on its own. This is why profitability is slipping even in assets that are holding topline performance, as the cost structure in most hotels is no longer aligned with today's operating reality.

As a result, flow-through has weakened across many hotels in recent years. With higher fixed labor and operating costs, each dollar of incremental revenue now converts to less profit than it did just a few years ago.

Thus, instead of focusing on how much operators can grow revenue, a key question now shaping 2026 budgets is “Is our labor model right-sized?” If that review doesn’t happen during budgeting, it rarely happens later—and the elevated expense base simply carries forward into the next budget cycle.

When ADR Stops Covering the Gap

For much of the post-pandemic recovery period, hotels were able to absorb higher operating costs because ADR growth was strong enough to cover them. That is no longer the case. Rate growth has flattened, and in many markets, ADR is now lagging inflation, which means rising costs are flowing straight through to the bottom line rather than being diluted at the top.
The moderation in ADR indicates the U.S. market is normalizing, with travel volumes stabilizing in the last twelve months due to a variety of macroeconomic factors, which accordingly limits hotels’ ability to keep pushing rate. Due to the same macroeconomic factors, guest price-sensitivity has increased; as a result, ADR is no longer functioning as the profitability buffer it did in 2022 and 2023.

When ADR can no longer offset labor or brand/operator-driven cost growth, margin protection cannot depend on revenue. Even healthy RevPAR is no longer translating into healthy GOP because the operating model has become more expensive than the underlying revenue can support. The takeaway for owners is straightforward: rate will not carry the 2026 budget. Stabilized revenue levels paired with a structurally higher expense base means profitability will depend on how efficiently the hotel is run, not simply how much it earns. If the operating model is not reassessed during budgeting, compressed margins become the new baseline going into 2026 and beyond.

When Brand and Operator Standards Impact ROI

Alongside labor, brand and operator standards have become an increasingly important factor in operating costs. Many were designed for a different guest behavior pattern and demand environment, yet they continue to guide how hotels are staffed and serviced today. The intent is consistency and guest satisfaction, but the financial outcome is often higher fixed expense with limited revenue lift.

An example is the evolution of amenity scope. In several select-service and upper-midscale brands, complimentary breakfast programs have expanded in quality and variety. While this elevates perception, it also increases food, labor, and waste costs without generating incremental ADR.

Technology is another area. Brands and operators have recently introduced tools such as mobile check-in, keyless entry, and AI-driven guest messaging, which may enhance efficiency when they replace or streamline tasks. However, the implementation cost burden for owners is sometimes steep and a drag on their P&Ls. Furthermore, if labor models remain unchanged, the technology simply adds expense instead of freeing staff for higher-value or cross-functional roles.

Brands ultimately create meaningful demand and quality perception and remain valuable to owners; however, owners and asset managers should ensure that evolving standards reflect current guest behavior and produce measurable return on investment. Without that periodic review, brand compliance can quietly become a fixed cost that compresses margins year after year.

The Case for Active Asset Management in the 2026 Budget Cycle

The operating environment that owners are walking into for 2026 is one where profitability will depend less on market performance and more on managerial discipline. Expenses are no longer rising because of short-term shocks; they are the result of structural changes in labor, brand standards, operator standard procedures, and guest expectations. In this context, active asset management is not an optional oversight layer—it is the mechanism that preserves profitability when topline growth is flat.

During the pandemic recovery, operators were able to focus almost exclusively on driving rate. That approach made sense when revenue was expanding rapidly, but it resulted in limited attention to cost structure. As the market normalizes, owners can no longer assume that operators will self-optimize for efficiency; operator incentives are often tied to revenue or service metrics rather than net operating income (NOI) flow-through.

Active asset management gives owners the ability to test assumptions and maintain accountability through data. The goal is not to micromanage operators, but to ensure that every budget line is supported by a clear rationale and measurable return on investment. This includes reviewing whether staffing patterns match occupancy, whether F&B and amenity hours align with guest usage, and whether brand-driven initiatives are producing value proportionate to their cost. Benchmarking is essential in the budgetary process and, indeed, in active asset management. Drawing on data from more than 4,500 assignments completed annually across all asset classes, HVS is able to benchmark departmental efficiency, labor productivity, and GOP margins against peer sets and property types globally. This data-driven approach helps identify where an operator's expense base is in line with market norms and where it has drifted.

When applied correctly, asset management turns the budget process from a compliance exercise into a profitability check. It enables ownership to manage the business based on performance evidence, not arbitrary projections, and to collaborate with the operator toward a shared goal: a sustainable cost structure that protects NOI without compromising guest experience.

Conclusion: Margin Protection as a Core Ownership Strategy

As 2025 draws to a close, the challenge for hotel owners in the next year is clear: rising costs are here to stay, and rate growth alone will not restore margins. Labor costs, brand standards, and fixed operating practices have reset the expense baseline, and profitability now depends on how efficiently hotels are managed, not how well they perform on the top line.

Heading into 2026, the owners who succeed will be those who treat asset management as an active discipline—testing assumptions, benchmarking results, and holding operators accountable for efficiency as much as revenue. In a slower-growth environment, protecting margin is the growth strategy.