

Leisure Law Insider – Vol. 7 (September 2025)

An Uncertain Environment: Managing Risks Associated With Tariff-Related Price Escalation in Hospitality Development

September 25, 2025

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Key Take: *Unlike other sectors, hospitality projects are highly sensitive to material price swings due to design specificity, FF&E requirements, and strict brand standards, which make tariffs an outsized concern for project budgets and deadlines.*

Trump-era tariffs continue to reshape pricing and procurement dynamics across all construction sectors, and hospitality is no exception. The reimplementing and expansion of tariffs under the second Trump administration have caused developers to rethink how construction contracts allocate and manage this renewed risk. For hospitality developers, where design specificity and material quality are paramount, this volatility can quickly derail project budgets and schedules. As Trump-era tariffs persist, their impact on hotel construction and renovation has only grown more pronounced. While domestic producers have ramped up output with increased production, this

boost has not been enough to offset the loss or increased cost of imports. Consequently, hospitality owners are finding themselves confronted with ballooning costs, delayed deliveries, and contractors seeking change orders or time extensions due to tariff-related price spikes. Unlike broader commercial or institutional sectors, hospitality faces unique pressures from seasonal openings, FF&E-intensive build-outs, and brand-standard compliance, which magnify the effect of these escalating material costs. With procurement now more complex and costlier than ever, construction agreements must do more than react — they must anticipate. The good news: a proactive, hospitality-specific contract strategy can reduce uncertainty, protect the bottom line, and preserve brand integrity despite escalating material costs.

Construction agreements offer owners the opportunity to be proactive instead of reactive to market trends. While tariffs that impact key materials and equipment are beyond any single developer's control, the impact on a project does not have to be. With thoughtful contract language, early coordination, and a collaborative mindset, owners can reduce uncertainty and protect project costs. The key is to create a framework that balances fairness with financial discipline, ensuring projects stay on track through this ever-changing market. This framework can be achieved using a variety of tried-and-true contractual alternatives.

Where feasible, stipulated sum agreements remain an essential tool in managing tariff-related cost volatility. Stipulated sum, or lump sum, contracts remain one of the most effective tools for owners and developers to manage cost uncertainty in the face of tariff-related volatility. These fixed-price contracts, which assign material cost risk to contractors, can benefit hospitality developers seeking predictability. However, in today's tariff-charged climate, contractors may hesitate to sign without accommodations for known tariff pressures. While owners want certainty, rigid contracts without

escalation relief may discourage competitive pricing or deter qualified bidders. To mitigate this disparity, hospitality owners may need to incorporate more detailed escalation frameworks within fixed-price agreements to strike a fair balance. Accordingly, the tradeoff between cost certainty and market responsiveness may require more specific and detailed contractual and practical solutions.

Contract language related to price escalation offers a straightforward solution to mitigate the risks of project delays and increased financial liability. Simply put, well-drafted price escalation clauses are essential for hospitality projects in 2025. The return of aggressive tariffs has led to material-specific cost surges, some as high as 40 percent for aluminum and 25 percent for imported electrical components. Hospitality projects, which often feature imported finishes, lighting, and complex FF&E packages, are particularly vulnerable. Fortunately, there are various methods stakeholders can implement to address these escalated costs. While parties can choose to address a material price increase via change order if the situation later arises, change orders can be fraught with disagreement and uncertainty. Conversely, price escalation clauses in the contract present a method by which key project stakeholders can negotiate and agree on how they will manage increased costs prior to any such increase and/or project delay. At best, owners can push for anti-escalation language holding contractors to fixed prices for materials set at the time of contract execution. At worst, an owner should seek to cap its maximum exposure for any escalation claim to maintain more certainty on the total budget. Importantly, any tariff-induced price escalation should include alternatives for both tariffs in existence at the time of contract execution as well as any tariffs implemented thereafter. While owners may agree to share the burden of rising material prices with contractors to get a deal done, they do not need to take on any other cost associated with the escalation, such as overhead and profit, and the contractor's fee. Contracts should therefore

endeavor to define eligible materials, require proof of escalation (e.g., third-party indices or supplier quotes), and cap the owner's exposure. Clauses should also allow owners to recover cost savings if prices later decrease and should exclude contractor markups on escalation claims. Stakeholders can agree upon tariff-specific allowances for items such as imported flooring, stone, and light fixtures to minimize disputes and budget overruns. Price escalation clauses can be complex and should attempt to cover any contingencies that may arise at the onset of a cost increase. Failing to tackle price escalation issues can quickly cause a project to exceed its budget and/or impact the schedule, putting owners at a loss before ever reaching completion.

Thorough price escalation clauses work to afford the most protection for owners and developers. For example, owners can require contractors to take on the obligation of proving an escalated cost and demonstrating entitlement to funds from allowances or contingency. To that end, many hospitality developers are now embracing Guaranteed Maximum Price (GMP) agreements with detailed contingency allocations for tariff escalation. While developers previously may have factored in a 5 percent material cost owner contingency (outside of the GMP) prior to 2025, today, the same stakeholders may want to increase it by a factor of 3 to 4. These contingencies ensure that project budgets can absorb tariff impacts without triggering a complete budget reset. Owners can also task contractors with mitigating and minimizing escalation costs by procuring materials early and keeping them stored on or off site. Material allowances and early procurement, especially for brand-specific imports, remain vital. In that vein, hospitality developers should consider bulk purchasing or warehousing key imports like casegoods and specialty lighting, with early buyout incentives built into preconstruction scopes. Owners can ensure they receive the benefit of any de-escalation through a deductive change order and can negotiate to

maintain amplified audit rights on escalation issues. The parties can also simply opt to use allowances of agreed-upon amounts for specific commodities affected by tariffs in lieu of tapping into contingency. Tariff allowances should be subject to a cap so the owner's exposure is limited to a certain and agreed upon amount. Any unused amounts included in a contingency or allowance should be returned to owner 100 percent at project completion. These examples are by no means exhaustive, but instead serve to illustrate some of the options owners have at their disposal to reduce risks associated with price escalation. Accordingly, a comprehensive price escalation clause can significantly curb unforeseen and unwanted exposure.

Price escalation clauses are not the only instances where contract language should be comprehensive. Project stakeholders should not treat force majeure clauses as a back door for tariff relief, especially in hospitality where delayed openings can trigger major revenue losses and brand penalties. Unclear force majeure clauses afford contractors the argument that new or changed tariffs are an "unforeseeable" event, entitling them to relief under the agreement's force majeure language. While an argument can certainly be made by all parties on this point, owners should take on a preemptory approach when drafting such clauses. To that end, owners can either ensure a force majeure clause is narrowly drafted to focus on events like natural disasters instead of market shifts or trade policy changes, or limit a contractor's remedies for a force majeure event to an extension of the contract time only. Drafting various clauses throughout an agreement that work fluidly and in tandem offers the best form of protection for the parties' competing interests.

Other alternatives that can limit an owner's exposure to tariffs related time and cost impacts include contingency funds and performance bonds or subcontractor default insurance. In instances where the basis of payment for work is the cost of the work plus a fee subject to a GMP, an owner may require

the contractor to allocate contingency to cover the price escalations. This approach affords the contractor relief while an owner can cap its potential exposure to the total amount allocated for contingency under the GMP. Additionally, on larger projects, a GMP with a shared savings provision can offer a balance where owners are provided an upside if actual costs come below budget, while still capping overall exposure. Opting for payment and performance bonds may also offer an avenue for risk management resulting from tariff-imposed cost overruns. Owners can require a contractor to furnish performance bonds securing the contractor's obligations under the construction contract. Performance bonds in particular can secure a contractor's performance in the event a contractor fails to perform due to insolvency or termination for default, by arranging for either completion of the contract work, or payment to owner in the amount required to complete the work. In the event a contractor defaults or fails to complete the work due to price escalation, a performance bond may provide some security for a project owner.

In hospitality construction, where guest experience is shaped as much by the finish of materials as it is by the architecture, the sourcing and timing of material procurement carries outsized importance. From FF&E packages to exterior stone and imported fixtures, every delay or swing of the price pendulum can ripple through a project's critical path. As such, monitoring market trends and implementing a material procurement strategy, especially for aluminum, steel, and imported soft goods from certain countries, in tandem with maintaining a contract that expressly addresses escalation issues affords the most protection to all parties involved on a project. Hospitality developers now find themselves navigating a procurement environment reminiscent of 2018-2020, but with added complexity. Specifically, sourcing from Vietnam, India, and Turkey, once seen as tariff workarounds, are now subject to new review. Consequently,

leveraging early procurement and direct material purchasing strategies allows project stakeholders to get ahead of tariff increases and supply chain disruptions. For materials like millwork, LED lighting systems, luxury vinyl tile, and modular bathroom pods, all of which are popular in hospitality, developers should lean toward locking in pricing earlier than preconstruction norms once dictated. This is especially true for items sourced from Asia, where currency fluctuation and shipping premiums add further uncertainty. This shift has had the effect of reigniting interest in domestic sourcing for items that have local alternatives. However, for many local alternatives, a lack of immediate capacity can cause various setbacks. In these cases, best practices call for negotiating longer lead times, buffering schedules, and building price escalation clauses into contracts with both the construction and design teams. Utilizing warehouses to store materials procured and stockpiled in advance, working with a trusted supplier who can offer competitive pricing and a stable supply chain, and diversifying material suppliers are some practical ways parties can mitigate risks due to material price fluctuations. To reap the benefit of such early procurement, owners can provide deposit or prepayment mechanisms for early buyout items and incorporate early procurement as part of the preconstruction phase of work. Of course, regularly monitoring global and domestic markets, especially commodity markets, can help owners stay informed about potential price increases. By staying ahead of market trends, owners can make informed decisions about timing purchases or locking in prices in light of tariffs that are implemented, forthcoming, or subject to change.

Trump-era tariffs have already levied measurable effects on hospitality construction. From boutique hotels to large-scale resorts, material costs are climbing and delivery timelines are tightening. However, these challenges can be mitigated with strong contract language, strategic procurement planning, and early coordination with project teams.

By adopting escalation clauses tailored to tariff realities and maintaining control over contingency and allowance use, hospitality owners can maintain budget discipline and project momentum despite global trade headwinds.