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Leisure Law Insider - Vol. 9 (January 2026)

The Impact of Tariffs on the Hospitality Sector

January 23, 2026

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Tariffs have been the talk of the town since President Trump signed executive orders in February of this year imposing tariffs on Canada, Mexico and China. Following that there has been a dizzying series of actions, including the imposition of tariffs on a wide variety of goods and countries, as well as trade agreements secured. It has not only been difficult and time consuming to follow the frequent activity surrounding tariffs, but also impossible to anticipate future actions. Given this situation, the most important thing for hospitality investors and operators to focus on is the impact on the industry, both current and future.

Amid all of the hype and anxiety about tariffs, there are a number of mitigating factors which help to blunt their impact. Fortunately, the U.S. is a major producer of many major consumption items. For example, the U.S. sources 60% of food consumed from American farms, and domestic energy production meets 98% of our energy demand[1]. And 88% of construction inputs (e.g., lumber, steel, aluminum) are produced domestically[2]. Another factor is that, so far, a number of countries have been absorbing a lot of the tariff impact to maintain their U.S. market share. Similarly, many U.S. companies have avoided passing on the full cost of tariffs to their customers or have been delaying purchasing goods impacted by tariffs until they have used up their existing inventory and/or have better visibility into what's to come. Finally, many companies are in the process of reshoring to the U.S. or otherwise reconfiguring their supply chains to reduce or eliminate the impact of tariffs, but the timeline for reconfiguring supply chains is long and so these efforts are not likely to positively affect projects currently in the pipeline.

Perhaps the biggest impact of the government's tariff initiatives has been the uncertainty of what's to come, and the fear of a significant downturn or recession, which has affected consumers and businesses alike. Even though the impact of tariffs on the CPI has been muted so far, the unemployment rate has been rising, and consumers and businesses have been cautious about spending, including on travel, either canceling or deferring bookings. This behavior has been showing up in the numbers: just recently, LARC revised its forecast of RevPar to decline .5% in 2025 and increase just 1.2% in 2026. Similarly, CoStar recently revised its RevPAR forecast down to a decline of .4% in 2025 and a decline of .3% in 2026. IHG reported a drop in U.S.

RevPAR in 2025 from a 3.5% increase in the first quarter to a .9% decline in the second quarter, and a further decline of 1.6% in the third quarter, citing the impact of tariffs, among other contributing factors. The experience of other major brands has been similar.

Despite the mitigating factors mentioned above, tariffs have had an impact on construction and renovation timing and costs. Construction material costs have been increasing, shrinking developer margins, which have also been negatively impacted by higher financing costs, so many developers are putting projects on hold. Those developers with projects in process are only buying what is necessary and delaying construction until there is more certainty around tariff policy.

Most equipment and furniture are sourced outside of the U.S., and even U.S.-built products have at least some components sourced from other countries. Some owners who have already ordered or purchased equipment and furniture from other countries have warehoused the product in the country of origin until there is more clarity on the potential impact of tariffs or will wait out tariffs that have already been imposed. As a result, it is likely that supply growth will slow, at least in the near term. Owners going through PIPs will be delayed in completing them and will likely wind up with a bigger bill that will need to be financed.

The costs of many food and beverage products imported into the U.S. have risen due to tariff policy, with categories like imported shellfish and coffee beans, among many others, affected. Operators have been identifying and purchasing substitute products, adjusting menu offerings and prices and communicating with customers in their efforts to mitigate the impact of tariffs.

Tariffs have impacted a number of areas in the hospitality industry, from demand to supply, from operating costs to construction costs. Owners and operators need to be nimble, and flexible, to successfully adapt to this challenging environment.

[1] Sources: U.S. Department of Agriculture, U.S. Energy Information Administration

[2] NAHB 2024 Construction Input Survey