

WALKER & DUNLOP®

OUTLOOK 2026

Hospitality

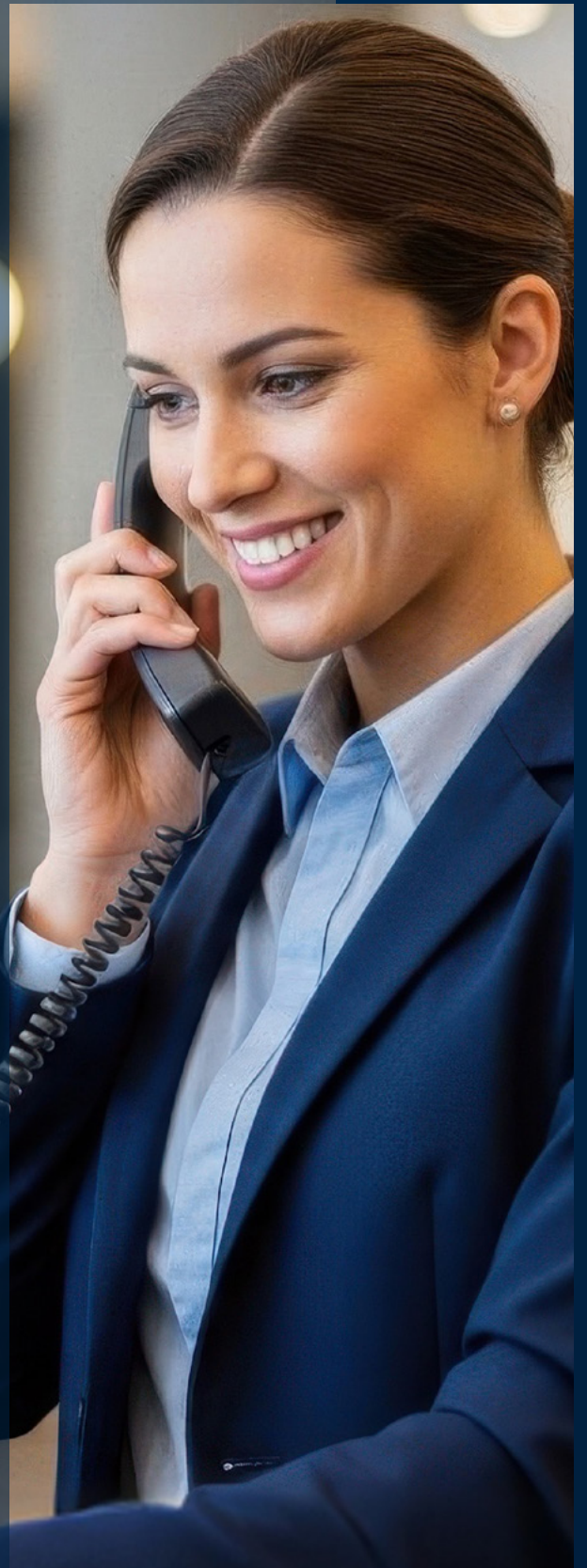




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AMAN NEW YORK HOTEL & RESIDENCES

NEW YORK, NY

Units: **83**

Purpose: **Development**

Fund Source: **Bank**

Amount: **\$754,000,000**

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1 Executive summary

Divergence defines the hospitality market in 2026

Capital is available, but not evenly deployed. Demand is present, but not evenly distributed. Development is feasible, but only under increasingly narrow conditions. Across the sector, fragmentation is the through-line of a structural repricing of risk and a lasting segmentation of both capital and demand.

The last cycle, in which broad-based recovery lifted nearly all assets, has given way to one of highly selective outcomes. Property performance is now determined by location, demand segment, asset quality, and operating model, while investment outcomes are increasingly shaped by capital structure, cost of capital, and underwriting discipline.

At the center of this shift are the capital markets. Debt is increasingly available for the right assets, while equity remains cautious. That gating mechanism is reshaping development, acquisitions, and overall deal flow. RevPAR and occupancy are increasingly decoupled across markets, reinforcing the need for granular, asset-specific analysis.

Development is constrained not by a shortage of capital but by its cost and by uncertainty around the durability of demand. Investors are prioritizing assets with clear differentiation or strong existing cash flow.

Operators are adapting to a segmented environment where not all customers behave alike, and not all markets perform equally.

What this Outlook Covers

- Demand fragmentation across traveler segments, markets, and price points
- Asset-level performance divergence as trajectory becomes more selective
- Capital markets discipline shaped by debt availability and equity selectivity
- Development constraints driven by cost, timing, and return thresholds
- Pricing and valuation trends tied to asset quality and replacement cost
- Micro-location importance in investment decisions
- Strategic opportunities for investors and operators in a selective market



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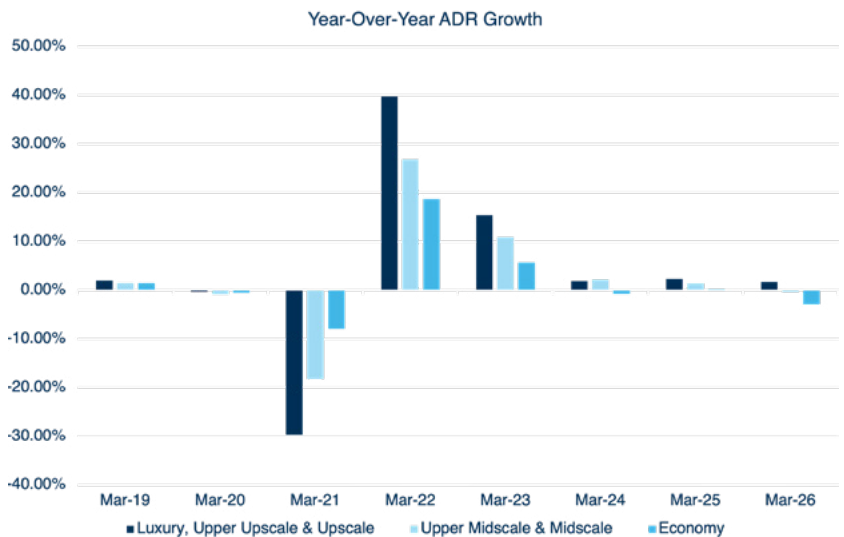
Market fundamentals

Demand is no longer uniform

Hospitality demand is no longer moving in lockstep. Instead, it is segmenting across traveler types, geographies, and price points. Traveler decision-making is increasingly influenced by perceived value rather than absolute price, creating sharper inflection points across segments. Shorter booking windows and evolving distribution channels are adding volatility to demand patterns.

K-SHAPED HOSPITALITY

High-end consumers absorb higher rates performance concentrating at the top end



Sources: STR CoStar | Note: Top-End defined as luxury, Upper Upscale & Upscale while Bottom-End is Economy

TOP-END

68.70% Occupancy
\$216 ADR | +1.66% YoY
ADR +71% from March '21

BOTTOM-END

53.61% Occupancy
\$70 ADR | -2.87% YoY
ADR +21% from March '21

Luxury leads

Upscale and luxury demand remains the most durable. High-end consumers can continue to spend and absorb higher rates, and luxury leisure remains the strongest and most durable demand segment in 2026. This appears structural rather than cyclical. It reflects an underlying consumer base that is less sensitive to price fluctuations. Performance is concentrating at the top end, with secondary luxury assets facing sharper competitive pressure.

- Marriott reported U.S. and Canada luxury RevPAR grew 7.4 percent year-over-year for Q1 2026 while select-service RevPAR grew 2.7 percent, highlighting the widening performance gap between affluent and budget-oriented travelers.¹

¹Based on *Marriott's May '26 release of Q1 stats from their Comparable Company-Operated US & Canada Properties*

Leisure matures

Leisure travel, which experienced significant growth in the immediate post-pandemic recovery, is now entering a more mature phase. Rather than continuing to rise across all markets, leisure demand is no longer rising uniformly across markets and has become increasingly bifurcated. Some destinations, such as the Hudson Valley, Naples, and Sedona, have remained resilient. Markets that pushed pricing most aggressively, testing the limits of consumer price sensitivity, are seeing meaningful pullback as consumers reassess value.

This divergence within leisure is a critical shift. It underscores that not all growth from the past several years is sustainable, and that future performance will depend on a market's ability to retain demand rather than simply attract it during peak periods.

4.9%

U.S. luxury room
revenue growth



Business anchors

Corporate and group demand are following a different trajectory than leisure demand. Business travel continues to recover, but hybrid work patterns have compressed demand into fewer peak midweek days, resulting in more uneven performance throughout the week.

Group demand has been especially strong in major convention-, conference-, and association-driven markets, as well as in urban destinations with deep meeting infrastructure, with some markets approaching or returning to 2019 levels. This has provided an important base of occupancy and greater visibility for staffing, food and beverage, and overall operations.

Taken together, these trends point to a more segmented demand landscape. There is no single driver of growth. Instead, each segment behaves differently, and performance increasingly depends on alignment with the right demand base.

The end of broad-based growth

A defining feature of this cycle is the end of uniform growth across markets. Portfolio-level strategies are becoming less effective than targeted asset selection, particularly for institutional investors seeking consistency.

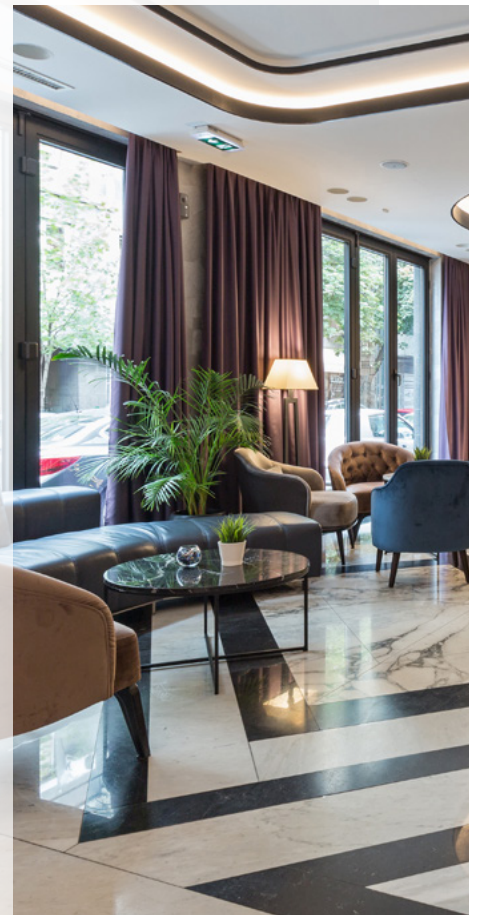
In prior cycles, strong demand lifted performance across a wide range of assets and geographies. That dynamic has shifted. Growth is now uneven, with some markets stabilizing or expanding while others are flat or declining.

This change has significant implications for both investors and operators. It reduces the effectiveness of broad market assumptions and increases the importance of asset-level analysis. Understanding where demand is durable has become a core competency.

Operators are responding by focusing more closely on segmentation, pricing strategy, and product positioning. Investors, in turn, are underwriting more conservatively, placing greater emphasis on market-specific dynamics rather than relying on generalized growth expectations.

The result is a market where performance is earned, not assumed.

**“
Taken together,
these trends
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landscape.”**



Capital markets overview

THE STATE OF HOSPITALITY



TRANSACTIONS

Volume double cycle trough;
~\$26B trailing 4Q



EQUITY SELECTIVITY

Capital crowding into Haves;
lower-tier stranded

CAPITAL FLOWS



UNDERWRITING DISCIPLINE

In-place income and basis, not
RevPAR growth



CREDIT AVAILABILITY

CMBS, debt funds, banks
all re-engaged



DEMAND

Leisure resilient; group and
corporate grinding higher



SUPPLY OUTLOOK

Starts at multi-decade lows;
pipeline thin into 2028

FUNDAMENTALS



NEAR-TERM REVPAR

Low-single-digit nationally;
bifurcated by chain scale



OPERATING LEVERAGE

Margin recovery as labor
and insurance costs stabilize

Capital is available, but selective

The capital markets environment in 2026 is defined by a clear divergence between debt availability and equity behavior. Lenders are placing increased emphasis on sponsorship strength and operating track record alongside asset quality and branding. Deal structures are becoming more bespoke, with greater use of performance-based triggers.

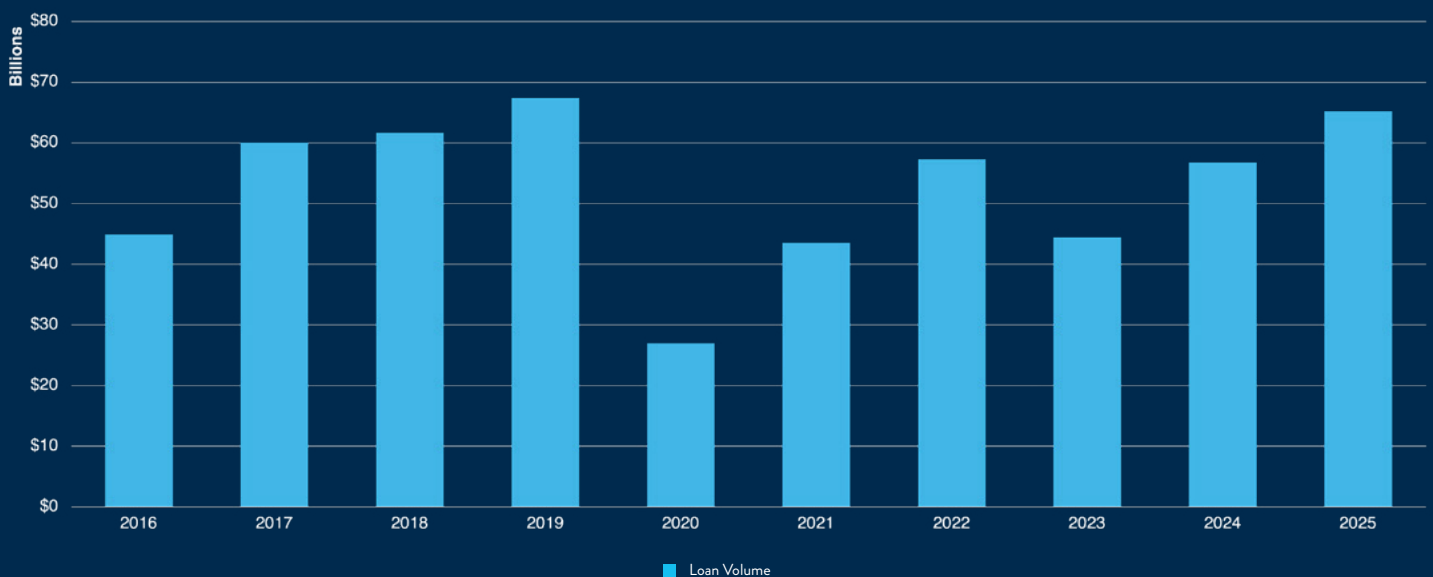
Debt markets have improved meaningfully. Credit is abundant across the hospitality sector, and lenders are actively competing for high-quality assets. High-quality, stabilized cash-flowing hotels are financing extremely well, with liquidity strongest for premium assets and proven cash flow.

Liquidity is strongest for acquisition financing involving high-quality assets with in place cash flow, or an immediate path to yield. These deals offer lenders a combination of downside protection and upside potential, making them attractive even in a cautious environment.

However, this availability is not universal. Assets that are underperforming expectations or still mid-business-plan are more difficult to finance. While capital is still accessible, those deals often require fresh sponsor capital, structured finance solutions, and more conservative underwriting assumptions.

U.S. HOSPITALITY LENDING

Debt markets have re-engaged; loan volume nearing pre-pandemic highs as lenders compete for quality assets



Source: W&D Internal Research, MSCI RCA

Equity is the gating factor

While debt is flowing, equity is more disciplined. Return thresholds remain elevated relative to prior cycles, reflecting both higher capital costs and increased perceived risk. Institutional partners are also requiring strong alignment and more conservative business plans.

Investors are approaching hospitality with a sharpened focus on risk. Rather than deploying capital broadly, they are targeting opportunities where they have strong conviction in both the asset and the execution strategy.

This is particularly evident in development. Institutional equity has been slower to return to ground-up projects, reflecting concerns about cost, timing, and visibility of demand; so far, the recovery has shown institutional equity being highly selective and yield focused rather than making basis driven investments. As a result, many development deals are still being driven by private capital or structured equity solutions.

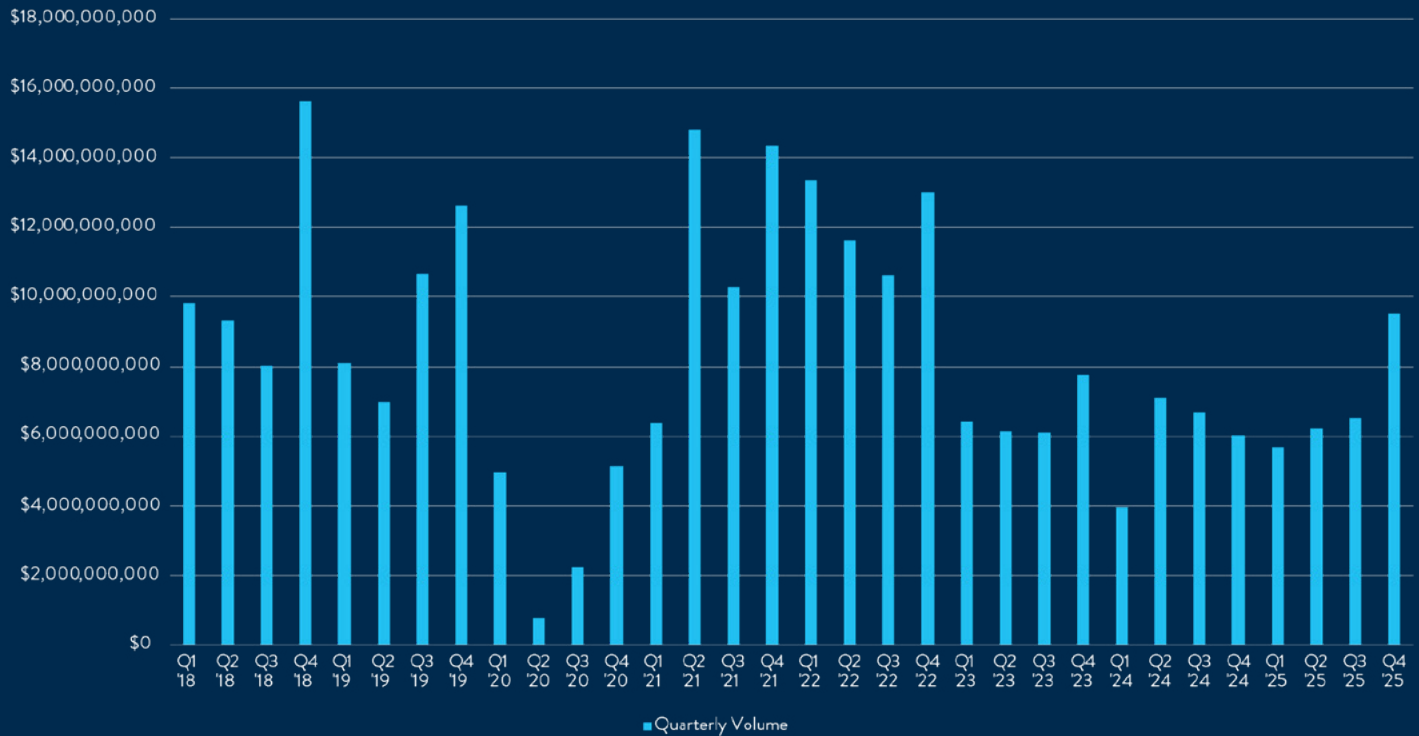
This shift is not a retreat from hospitality, but a recalibration. Equity is still active, but it requires clearer paths to returns and stronger alignment with market fundamentals.

Cap rates and pricing dynamics

Cap rates are expected to hold relatively stable absent a material shift in fundamentals. Pricing, however, is becoming increasingly nuanced. Rather than moving in tandem across the market, valuations are diverging based on asset quality, location, and performance.

U.S. HOSPITALITY TRANSACTION VOLUME

Volume rebounds 2x from cycle trough, reaching \$29bn on a rolling four-quarter basis



Source: MSCI RCA



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Development & supply pipeline trends

Capital is broadening across investor types

Recent industry pipeline data continues to reinforce the increasingly constrained development environment across hospitality. Lodging Econometrics reported that U.S. hotel rooms under construction totaled approximately 132,000 at the end of the first quarter, down 9.2 percent year-over-year, while projects scheduled to begin within 12 months declined 5.3 percent year-over-year to approximately 249,500 rooms. Early-stage planning activity also softened, falling 4.8 percent year-over-year to roughly 324,300 rooms.

Miami, Phoenix, New York, and Dallas currently lead the nation in rooms under construction. CoStar reported similar trends, noting that the number of U.S. hotel rooms under construction declined year-over-year for the 15th consecutive month, with all major pipeline stages showing meaningful contraction relative to prior-year levels.

Development is constrained by economics, not interest

Development activity remains limited, but not due to a lack of interest or available capital.

In many cases, developers have equity lined up and are actively pursuing opportunities. Some prominent developers have all the equity they need. The primary constraint is the cost of financing, combined with uncertainty around future demand. These factors make it difficult to achieve the returns required to justify new construction.

As a result, projects are being delayed, restructured, or shelved altogether. This is particularly true in segments where differentiation is difficult to achieve.

THE NASHVILLE EDITION NASHVILLE, TN

Units: **345**

Purpose: **Development**

Amount: **\$371,500,000**

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Acquisition vs. development

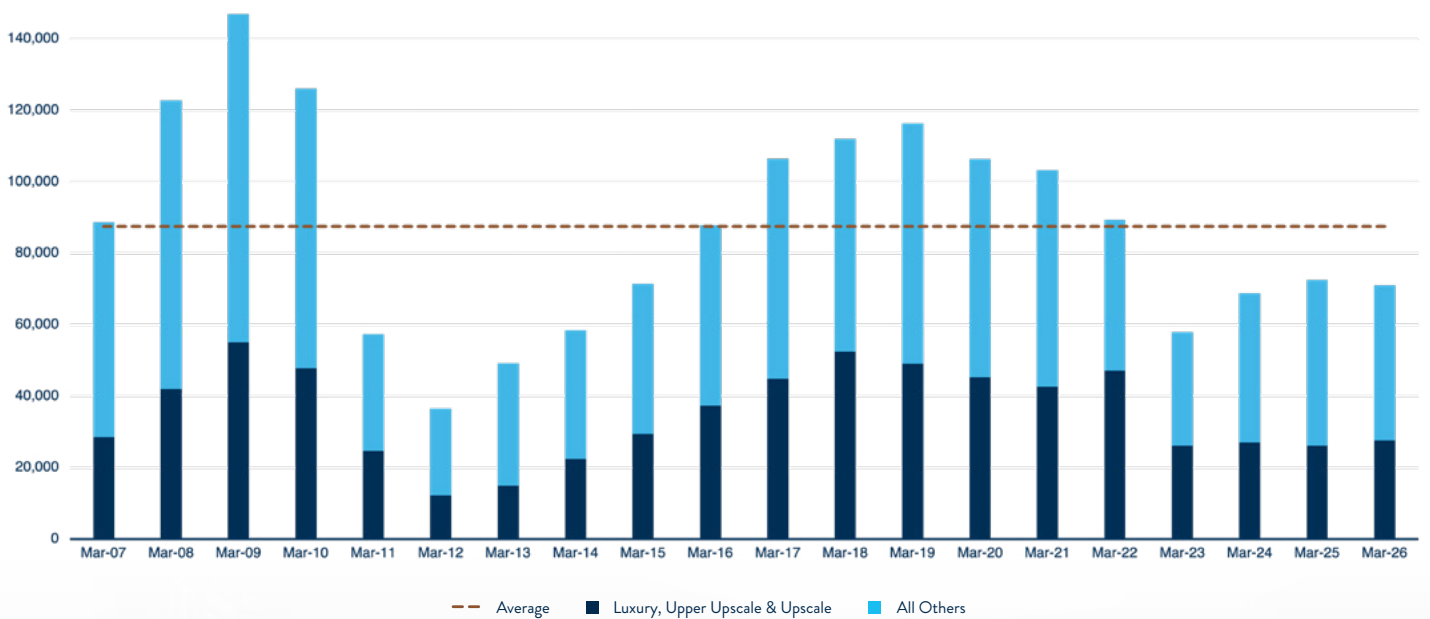
A central dynamic shaping the supply pipeline is the pull of acquisitions.

With many assets trading below replacement cost, investors are finding it more compelling to acquire and reposition existing hotels rather than build new ones. In many markets, buyers can acquire assets at 50 to 60 percent of replacement cost, especially in the middle of the market where construction costs are high and differentiation is limited.

This dynamic is slowing new supply and shifting capital toward existing assets. It reinforces a cycle where development remains constrained, further tightening supply in certain segments.

HOTEL DELIVERIES

Annual deliveries 39 percent below near-term peak, and 20 percent below long-term average



Source: STR CoStar



The rise of mixed-use and hybrid models

To overcome development challenges, many projects are incorporating mixed-use, residential, or for-sale components.

These structures provide additional revenue streams and can improve overall project feasibility. In some cases, branded serviced condo product is emerging as one of the more bullish corners of the market because it can sell well and materially de-lever the hotel. By diversifying income and reducing reliance on hotel performance alone, these structures help mitigate risk and attract capital.

While not a universal solution, mixed-use strategies are becoming an increasingly important tool for developers navigating the current environment.

Conversions and alternative uses

Conversions are emerging as a major theme across hospitality. Assets are no longer being evaluated solely within their existing use. Instead, investors and developers are asking a broader question: what is the highest and best use of this asset? The focus is less on forcing a hotel outcome and more on determining what is best for the asset and then capitalizing the execution accordingly.

This has led to increased cross-asset class movement, with hotels being converted to other uses and vice versa. Office-to-hotel conversions, in particular, reflect broader shifts in the commercial real estate landscape. This flexibility is reshaping how hospitality fits within the broader ecosystem, positioning it as one component of a more fluid and interconnected market.

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Policy, regulatory, and macro considerations

A more volatile operating environment

The macro environment is becoming more volatile, with shorter cycles and more frequent disruptions.

Periods of stability are less predictable, requiring investors and operators to be more proactive in their decision-making. Timing has become increasingly important, with a greater emphasis on acting during windows of relative certainty.

Cost pressures and labor dynamics

Operational costs remain a key challenge, particularly labor. Wage growth and benefits costs remain elevated, particularly in high-demand labor markets. OPEX growth is muting NOI growth even where top-line performance remains healthy. This is accelerating the adoption of automation and technology-enabled service models.

Public lodging REITs are quantifying the pressure in their 2026 guidance. Mid-single-digit labor cost growth is anticipated, driven by collective bargaining agreement renewals including the recent New York union renegotiation. Wage rates are expected to rise approximately 5 percent in 2026, after slightly above 6 percent in 2025, with wages and benefits comprising roughly half of total comparable hotel operating expenses.¹ Top-line stabilization is being absorbed by structural cost growth, narrowing margin flow-through across the sector.

In certain markets, labor-related changes can significantly impact operating margins. This adds another layer of complexity to both underwriting and day-to-day operations. As a result, cost management is becoming a central focus, influencing everything from staffing models to service offerings.

Accommodation and food services continues to lead all U.S. sectors in voluntary quit rates,² and sell-side lodging coverage has consistently framed margin protection, not rate growth, as the principal lever defining 2026 performance across the C-corp and REIT universe.³

¹Host Hotels & Resorts, Q4 2025 earnings call, February 2026.

²U.S. Bureau of Labor Statistics, Job Openings and Labor Turnover Survey (JOLTS), 2025–2026 monthly releases.

³Sell-side lodging equity research, including JPMorgan, Wells Fargo, and Goldman Sachs Q1 2026



“Operational costs remain a key challenge, particularly labor.”



Efficiency as a strategic priority

Efficiency is emerging as a defining theme across operations. Brands are adapting standards to support more flexible and cost-efficient operating models.

Lean operating models are gaining traction, offering a way to reduce costs while still meeting guest expectations. These models align with a segment of travelers who prioritize value and simplicity over full-service experiences.

At the same time, this shift reflects the broader segmentation of demand. Not all guests seek the same experience, and successful operators align their offerings with their core audience.

Public lodging operators are translating this discipline into specific operational levers. AI-enabled scheduling tools are reducing reliance on third-party staffing services and improving productivity through better demand-aligned deployment, while owners and brand operators are recalibrating labor standards on a position-by-position basis rather than relying on broad headcount reductions. AI's accelerating influence is already reshaping how hotels operate, compete, and connect with travelers with labor scheduling, revenue management, guest communication, and staffing optimization, amongst other things.

6

Outlook & opportunities

Where performance will concentrate

Performance in 2026 will concentrate in specific segments and strategies. Luxury and highly differentiated assets are best positioned to maintain pricing power and attract capital.

Assets that integrate experiential components, like wellness, food and beverage, and local partnerships, are capturing a disproportionate share of demand. These segments are also attracting a larger share of both debt and equity capital. Efficient operating models represent another area of opportunity, particularly where they align with evolving consumer preferences.

Segments under pressure

The middle of the market faces the greatest challenges. These assets are increasingly squeezed between rising costs and limited pricing power. Development in this segment is difficult to justify, and existing assets must compete in an increasingly crowded and price-sensitive environment.

Lifestyle hotels are also under pressure as the category saturates. Brand proliferation has eroded the differentiation that once defined the segment, making execution more critical.

At the lower end of the market, price sensitivity and new supply continue to create headwinds.

Capital deployment strategies

For investors, success will depend on selectivity and precision. Opportunities are strongest where pricing, positioning, and capital structure align. This includes:

- Acquiring assets below replacement cost
- Targeting resilient micro-locations
- Investing in highly efficient, differentiated or hybrid models

Structured capital solutions and creative deal structures are also playing a larger role, particularly in more complex transactions.

A map of divergence

The defining feature of the 2026 hospitality market is divergence.

There is no single trend that applies across the sector. Instead, there are multiple paths, each shaped by its own set of dynamics. Navigating this environment requires a more nuanced approach that prioritizes insight, discipline, and adaptability.



ADDITIONAL HOSPITALITY INSIGHTS

Walker & Dunlop continues to provide perspective across the evolving hospitality landscape, from capital markets to operational strategy and large-scale investment trends. Explore more insights and conversations shaping the sector:

WALKER WEBCAST INSIGHTS FOR LIFE

Hosted by Willy Walker, Chairman and CEO of Walker & Dunlop, the Walker Webcast features conversations with leaders shaping the global economy, spanning capital markets, real estate, and select asset classes influencing long-term growth.

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Hospitality real estate gets back to basics



Key takeaways from ALIS 2026



Rethinking hospitality at scale



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Our hospitality experts

Walker & Dunlop brings a fully integrated platform to the hospitality sector, combining capital markets expertise with deep sector knowledge.

Our team supports clients across financing, investment sales, and advisory, helping them identify opportunities, navigate complexity, and execute with confidence.

In a market defined by fragmentation, that integrated approach provides a meaningful advantage, enabling developers, owners, and operators to move with precision in an increasingly selective environment.



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