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Navigating economic shifts in hospitality through strategic design partnerships - by Harry Wheeler

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Across the United States, the hotel industry is facing a host of challenges in bringing projects to fruition, particularly in metropolitan areas such as Boston, New York City, San Diego, and Phoenix. Higher interest rates and stricter lending standards are making it more challenging to secure funding, while market uncertainty is prompting increased caution from investors. Coupled with rising labor and materials costs (especially with increased tariffs), lenders and developers are forced to reevaluate scoping, postpone groundbreakings, or stop construction halfway through with hopes to see improvement in valuations, loan terms, or absorption prospects.

The role of the project architect isn't just to style a building; it's also focused on maintaining a project's viability through risk management. Architects must understand and respond to these market shifts to guide clients effectively, blending design-forward thinking with financial literacy to provide owners with realistic scenarios, design resiliently for cost volatility, and use procurement and delivery to reduce exposure. In doing so, architects assist in keeping more projects moving, even in constrained or tumultuous situations.

Key Drivers Influencing Project Stalls

Delays are often driven by a number of key factors influencing the current project climate, ranging from financial strains to labor and staffing challenges. Perhaps one of the most prominent roadblocks facing developers today, inflated interest rates driven by the rise of policy and market rates, is leading to higher financing costs and decreased Internal Rate of Returns (IRR). As a result, the monthly carrying cost during the build is raised while the post-stabilization cash flow is reduced – often making previously viable projects marginal or unfinanceable. Therefore, developers reassess budgets, increase required rent or sale prices, or shelve projects altogether. In the hotel world, this is bad news for smaller boutique or independent properties that face added pressure for success with a more limited brand foundation.

Commercial real estate and construction lending growth has also slowed as banks tighten underwriting and become more selective, particularly for hospitality lending. This makes access to capital unpredictable, forcing developers to either find alternatives that are more expensive or delay the project until financing conditions improve.

Since the pandemic, material prices, such as steel, lumber, and concrete, and skilled labor costs have remained elevated and volatile, increasing hard costs and complicating fixed-price contracting. This spending pushes up total project budgets and reduces the loan-to-cost comfort zones for lenders – a double effect that commonly stalls projects. Through the lens of hospitality, guestroom fit-outs, food and beverage spaces, and back-of-house systems, in particular, have seen sharp escalations in price. Further, FF&E and specialty imports, including furniture, fixtures, and finishes, remain expensive and erratic, particularly in the face of imposed tariffs.

With higher cap rates and slower leasing and sales numbers in some markets, property valuations have softened. The gap between construction cost and expected exit value widens the financing and feasibility gap, forcing investors and equity partners to become more risk-averse and pull back

from speculative projects. This impact is palpable, as evidenced by the large number of reported approved lots and foundations sitting idle. Hotel valuations are under pressure from shifting cap rates and variable operating revenues as Revenue per Available Room (RevPAR) and Average Daily Rate (ADR) projections weaken investor appetites – equity groups hold back until performance data stabilizes, causing developers and equity partners to delay or withdraw.

Even when financing is available, permit timelines, delayed materials, and labor shortages can present challenges in schedule risk and cost overruns, turning lenders and owners away from starting new projects until the macro uncertainty eases, which exacerbates the existing issues. Post-pandemic travel recovery has proved to be uneven across segments (think urban business compared to resort and select service), and hospitality staffing shortages raise operating cost assumptions. Dealing with brands poses an additional risk due to delayed approvals and changing company standards.

Observable Market Effects

There are several tangible effects that these stressors are presenting in the market, continuing to influence the trajectory of hospitality for the years to come. The decline in pipeline starts with building permits, leading to a shift from the prioritization of new build projects to conversions and repositionings. Scope reductions and value engineering are becoming a core element of the process, cutting costs wherever possible to make sure the project makes it to completion.

From a consumer standpoint, an increased focus on extended stay and select-service brands will become increasingly apparent due to their lower risk and quick stabilization in the market. They may also notice that ground-up full-service and luxury hotels are especially delayed due to higher capital intensity, prolonging timelines to opening.

The Strategic Role of Architects in Hotel Development

Designers must remain adaptable, proactive, and observant as much as possible from the kickoff of a project all the way through completion. A popular method being employed in the current climate is planning for phased openings to get part of a project online sooner than the rest to begin generating cash flow. When it comes to equipping a property to handle the ebbs and flows of the industry, prioritizing flexible guestroom modules creates the ability to handle shifts in the market, catering to consumer needs without requiring an entire overhaul. It's also important to offer affordable alternatives for FF&E and finishes that maintain brand compliance, preserving a brand experience while presenting clients with cost-conscious options.

Architects and designers also act in a client advisory role, providing financial sensitivity analysis tied to RevPAR and construction cost assumptions to paint the whole picture, translating the design scope into terms that lenders and brands value: quicker time to market, reduced cost per key, operational efficiency, and so on.

Risk management throughout every stage is a necessary part of keeping a project as on-time and within budget as possible. For example, identifying long-lead FF&E and specialty imports early for procurement reduces the possibility of delayed shipments, creating a domino effect on delivery

timelines. On the operations front, building contingency plans for labor shortages and an extended opening schedule will make situations easier to manage should they arise, and using brand alignment strategies can ensure design approvals don't stall financing or delay schedules.

What it Means for the Future

Though the future of development remains uncertain, discussions of interest rate cuts and more relaxed lending could help projects move forward. Domestic travel in the United States remains strong, with international travel showing steady year-over-year growth. While architects and designers can control only so much as it relates to the project process, our role becomes even more critical in this climate. Looking ahead, working closely with clients to stay mindful of budgets and respectful of design will be essential in bridging gaps between the developer, operator, brand, and lender. Ultimately, the hospitality industry is built on experience, requiring designers to champion this foundation by assisting in all aspects of a project to create beautiful, functional spaces while maintaining collaboration and consistency.

Harry Wheeler, AIA, is a principal with JCJ out of the Boston studio with over 30 years of experience specializing in design innovation and client-focused service within the hotel, hospitality, and mixed-use markets. Known for his dynamic and engaging leadership style, Wheeler brings a deep passion for the industry and a proven ability to navigate the unique challenges of each project. His extensive network of connections with owners, operators, global brands, and strategic industry partners has been built over decades of delivering projects that embody design excellence while remaining firmly rooted in client goals and local context. Wheeler holds both a bachelor of architecture and a bachelor of architectural engineering from the Wentworth Institute of Technology.

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