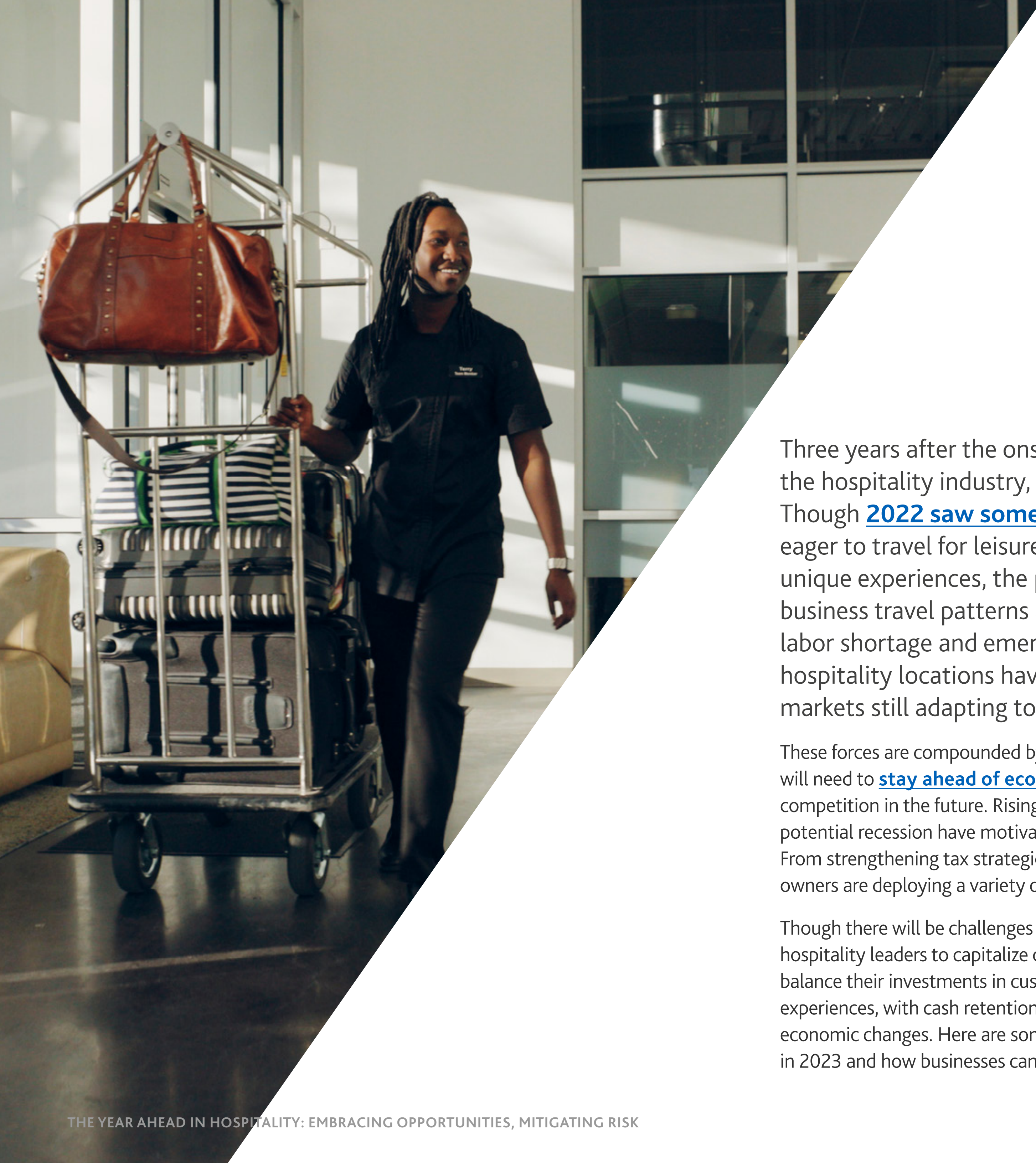
The Year Ahead in Hospitality: Embracing Opportunities, Mitigating Risk



Three years after the onset of the coronavirus pandemic, the hospitality industry, like others, is still recovering. Though [2022 saw some significant growth]() with a public eager to travel for leisure, particularly to locations offering unique experiences, the pandemic has markedly changed business travel patterns and consumer behavior. An ongoing labor shortage and emerging competition from resort hospitality locations have further strained some hospitality markets still adapting to shifting consumer demands.

These forces are compounded by continued economic turmoil and companies will need to [stay ahead of economic influences]() to avoid falling behind competition in the future. Rising inflation, increased interest rates and a potential recession have motivated many to look for ways to conserve cash. From strengthening tax strategies to leveraging automation, hospitality property owners are deploying a variety of cash management tactics.

Though there will be challenges in the year ahead, there is also potential for hospitality leaders to capitalize on the evolving market. Leaders will need to balance their investments in customer attraction, like renovations and guest experiences, with cash retention as budgets tighten in anticipation of ongoing economic changes. Here are some of the top challenges and trends we anticipate in 2023 and how businesses can overcome them.

Hospitality's
TOP CHALLENGES

Cash retention

Economic uncertainty and the lingering effects of the pandemic have diminished hospitality companies' cash on hand. While business is improving for many, those still struggling may need to embrace new cash management strategies. For public companies, this could mean more creative financing structures that account for the more expensive debt markets. Hospitality businesses should also pursue tax credits and incentives like the Work Opportunity Tax Credit, **Employee Retention Credit** and those in the **Inflation Reduction Act** as a way to save on overall costs, especially for companies already making ESG- and sustainability-related investments.

In addition, common procedures for mitigating losses, like natural disaster related property damage insurance claims, will become more important. Increased scrutiny of these cases has made it crucial for hospitality companies to strengthen their insurance claims by maintaining a focus on books, records and other materials that could support their case to insurance companies.

Overall, hospitality businesses will need to conserve capital through a variety of tactical actions, including managing labor more closely to ensure proper staffing levels, analyzing national and **regional cash saving tax strategies** to maximize benefits and using smart technology to reduce energy consumption.

Labor shortages

The hospitality sector has contended with labor shortages for the past few years, and there doesn't appear to be relief on the horizon. High turnover and increased competition have drained recruiting and training budgets. Competition from other markets has also exacerbated labor shortages in these areas, as growing interest in resorts that can offer attractions and experiences in addition to passive leisure activities has increased challenges for many hospitality businesses.

According to CBRE's **U.S. Investor Intentions Survey**, secondary markets are attracting funding better than major markets like New York and Los Angeles. Secondary locations, **particularly those in the South**, could have an edge over competition in 2023. Across all areas, however, property owners are looking for resources like automation and outsourcing to help mitigate the strain on existing employees. By investing in tools like reservation management software, inventory tracking programs and even chatbots on customer-facing sites for frequently asked questions, hospitality leaders can digitize routine tasks and alleviate pressure on existing staff, allowing them to focus on more complex issues.

Trends TO WATCH

Privatization of public hospitality companies

While the stock market reacts to inflation, rising interest rates and economic uncertainty, we may see more private equity acquisitions of large public companies looking to ride out market volatility. Industry leaders can anticipate an increase in private equity interest in the hospitality sector, particularly for hotel REITs.

Increased audits by state and local governments

As budgets tighten and economic turmoil increases, we could see state and local governments increase audits on the hospitality industry as a means to maintain funding, particularly for sales and use tax and occupancy taxes. Companies should perform internal audits to identify and then mitigate tax-related risks.

Unclaimed property tax scrutiny

With high turnover rates exacerbated by the labor shortage in the hospitality industry, unclaimed property has become a greater challenge. Employees leaving jobs for more appealing opportunities often do not collect their final paychecks. Hospitality leaders will need to stay abreast of unclaimed property statutes and regulations to avoid audit liabilities.

New brands emerging

As hospitality companies adapt to changing economic conditions and evolving client expectations, new brands may emerge. We can expect more companies to introduce new brands focused on creating new guest experiences.

NEXT STEPS

The hospitality industry was on the road to recovery in 2022, even as demands from consumers changed following the pandemic. To maintain that recovery trajectory, hospitality leaders will need to capitalize on opportunities to manage cash and restructure tax strategies. Mitigating risks associated with economic uncertainty and labor shortages will also be vital to continuing a successful recovery in 2023. To stay ahead of competitors, companies will need to balance cash retention in a volatile economy with investments that support future growth.

Want to learn more about seizing opportunities for growth in the hospitality industry this year? Visit our site to learn more.