



Guarding Hotels Against the Ongoing Impacts of the Pandemic

Supply-Chain Issues, Inflation Continue to Plague Hotel Owners and Developers

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As we have transitioned from the COVID-19 lockdowns, hotel design and construction has pivoted as well.

The changes to the design and construction world have had impacts in pricing, lead times, availability in general and guest expectations. In the post-COVID world, there are several opportunities for hotel owners, operators and designers to adjust to the new normal.

The clear change in recent years has been a significant increase in inflation. However, inflation in this period has not been a consistent increase to all pricing equally.

Certain items have spiked at much higher rates and others have remained at the 2% to 4% inflation we were accustomed to in a pre-pandemic world.

Construction pricing saw double-digit inflation in 2021 and 2022. So far in 2023, we have seen that increase start to return toward the prior years, but it still appears to be outpacing inflation in general. The best hedges against construction inflation have been bidding earlier, tighter documents and selective material choices. The first two items tend to work against one another. The earlier you bid a project in the design process, the more contingency is needed by either a contractor or by the owner. The only way to be able to achieve both goals is to start the design process sooner so that the documents are more complete before the bids are requested.



While this sounds simple, the reality is that due to material lead times and owner cash-flow issues, project design schedules have gotten shorter, which is leading to higher pricing and less complete documentation. Selective material choices are really a matter of paying attention to detail and what materials are more available in a given market. This can vary by project location, so it requires paying attention to project-specific factors. This could be in the selection of a structural system for a new-build project, the selection of exterior skin materials in another, or how to connect the high-speed internet in your hotel tower. The best way to protect against choosing the wrong materials or system is the involvement of a project manager and/or contractor during early design phases.



ISHC Global Insights is a partnership of Hotel News Now and the **International Society of Hospitality Consultants** to bring in-depth analysis to the hotel industry.

Supply-chain issues during and after COVID have resulted from a variety of issues: container shortages, material stockpile depletion and rising transportation costs. The average lead time on materials has risen between 25% and 50% from pre-pandemic levels. This has affected construction durations, project delivery and — even indirectly — construction pricing. The hidden impact on construction pricing is twofold: First materials are ordered earlier, resulting in extra warehousing costs; second, additional quantities of materials are ordered to avoid delays if materials run short. Mitigating the supply-chain issues comes down to ordering earlier and absorbing warehousing costs for

storing materials longer. This has resulted in less warehouse space being available and increased warehousing costs.

The pandemic changed several aspects of hotel operations. Housekeeping became an optional service during the duration of a stay; food and beverage as a grab-and-go service increased the demand for markets or the increase in room service orders. These changes in service have remained even after the pandemic impacts have subsided. On the design side, we are seeing larger markets with more prepared food options and frozen and refrigerated areas. The reduced housekeeping has led to the demand for more durable finishes on casegoods to withstand water for extended periods. It has also led to lightening the load on the hotel laundries and service elevators. If housekeeping

reductions stay, we could see reduced hotel storage and thus smaller housekeeping storage areas.

Other indirect impacts from the pandemic are that some hotels cut back on deferred maintenance to save money during lockdowns. Those impacts will not be seen in the short term but may affect overall useful life in major mechanical equipment. Secondly, as many hotels did not renovate during the lockdowns, similar to their actions during recent recessions, in the following years the increased number of properties undergoing renovations will likely lead to shortages of construction renovation teams and overburdened manufacturing for hotel specific goods. All of these impacts will carry over in 2024 and even 2025.

The bottom line is that hotel operators and owners should anticipate higher construction costs, higher furniture, fixtures and equipment costs, longer lead times and extended construction durations for the next several years. Hiring hotel-specific design and project management firms will help to mitigate some of these impacts.

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