The Plasencia Group

LODGING INVESTMENT ROADMAP

WINTER 2026

RESET, REFRAME, RECOVER: THE ROAD AHEAD FOR HOTEL INVESTMENTS

By Lou Plasencia, CEO, The Plasencia Group

Entering 2026, hotel real estate investments are shaped by moderating volatility, clearer interest rate expectations, and an increasing focus on operating fundamentals rather than economic momentum. While 2025 was a period of reckoning and repositioning for hotel owners and investors, a number of markets and submarkets across the U.S. have seen meaningful recovery, creating optimism for a pending return to improved transaction activity. We at The Plasencia Group believe hotel real estate investments are finally on a gradual upswing.

ARE IMPROVING TRANSACTION DYNAMICS COMING FOR COMMERCIAL REAL ESTATE?

Commercial real estate is a mature asset class that has experienced strong performance across multiple economic cycles and has provided stable returns even during volatile or inflationary periods. According to Deloitte's recent survey of real estate executives, almost 75% of respondents expect to increase their allocations to real estate assets over the next 18 months. Owners of properties in most asset classes are expecting gradually improving fundamentals and expressing increased confidence as compared with prior years.

To be sure, considerable debt maturities remain and will present challenges to both borrowers and lenders, but capital markets are expected to continue their rebound, with overall commercial real estate transaction volume increases anticipated in 2026. Lower interest rates and a declining cost of capital will be key catalysts for deal flow and gradually improving property values.

Major private equity firms heavily invested in the real estate sector – firms such as Apollo, Blackstone, Brookfield, and KKR – have openly stated that the bottom of the cycle is behind them and that meaningful investment opportunities lie ahead. We view this is a positive signal to the broader real estate investment community, and specifically to the lodging sector, which is an important subset of commercial real estate that's closely tied to travel, consumer spending, labor markets, and broader economic conditions.

WHAT'S AHEAD IN 2026 FOR LODGING REAL ESTATE INVESTMENTS?

The overall U.S. commercial real estate market should see more clarity in the debt markets and in the broader economy, which will add to buyer and seller confidence. Concurrently, investors seeking to diversify their total portfolios have a desire (indeed, a need) to gradually increase their allocations to real estate, and particularly to the hospitality sector which can outperform other asset classes, especially in urban and resort markets. More risky ground-up hotel developments remain, for the most part, off the table as discounted acquisitions offer much more attractive returns with lower execution risk.

In 2025, hospitality transaction volumes were uneven. Sales were down in some regions of the country but strong in specific pockets. Going-in yield remains the most critical differentiator in investment opportunities, and in an operating environment characterized by a flattening topline with growing expenses, early returns have been hard to come by in many markets. Well-capitalized private equity and strategic buyers took advantage to selectively deploy capital in 2025, while lenders and owners worked through a significant volume of refinancings. Lenders continue to avoid taking back their hotel collateral, especially if at a loss.

Heading into 2026, pricing expectations will continue to reset as sellers who have held hotels well beyond their anticipated hold periods begin to price their properties as dictated by the realities of the debt markets. We expect this will result in an increase in deal activity, particularly in key venues where asset quality is high and yields are attractive. We also anticipate a gradual normalization – not a boom – around opportunistic transactions, particularly where discounts to replacement make acquisitions attractive. These transactions will be largely driven by seller capitulation as investment horizons are exhausted, brand-mandated renovation pressure mounts, and lender patience wanes. While lodging deal volume should be higher in 2026 than in 2025, price-per-key metrics will remain a challenge given the expense headwinds hoteliers are experiencing with labor and other costs.

For those seeking to exit their hotels, our experience, over numerous economic cycles, tells us that early movers have historically fared better simply by heeding the laws of supply and demand.

Given the tension that has existed within the Federal Reserve Bank with their two goals, namely maximum employment and low inflation, it may be several months before the market's apprehension declines. That said, the significant amount of investment capital currently on the sidelines, coupled with the number of owners who have kept lodging assets well beyond their initially intended hold periods, will drive meaningfully more hotel transaction activity in the year ahead.

For those seeking to exit their hotels, our experience over numerous economic cycles dating back to the late 1990s tells us that those who sell early do quite well and have fewer regrets. Early movers have historically fared better simply by heeding the laws of supply and demand. For buyers, on the other hand, better (lower) pricing is often found later in an up-cycle, especially after the predictable flood of assets hits the market. Stagnant hotel values will generate opportunistic investments ahead of the inevitable recovery.

WHO IS SELLING AND BUYING HOTELS?

Owners with near-term debt maturities or weaker operating performance will be the primary seller group, choosing to exit rather than refinance at what they consider to be punitive spreads. Limited partners are also becoming more impatient with their general partners and are pushing for redemptions. Additionally, investment vehicles approaching the end of their fund life, as well as private owners and family offices who realized gains in their hotel holdings during the earlier cycle, will be in the seller category as they seek to re-allocate capital or reduce leverage loads. Impending hotel PIPs (Property Improvement Plans) continue to prompt sales, as many owners opt to exit rather than invest additional capital. At the same time, opportunistic investors with dry powder are already scooping up prime properties in key locations that are in need of renovation or repositioning.

Public lodging REITs will continue to exit hotels that are placing a strain on overall portfolio metrics due to lagging performance or those that can generate disposition pricing at beneficial multiples. Proceeds from those sales are being used by the REITs to rebalance their portfolios or create liquidity for strategic redeployment.

On the acquisition side of the ledger, institutional investors and global funds are seeking core and core-plus assets in several urban or resort markets. The larger funds have remained active with acquisitions of properties that demonstrate an alignment of operating fundamentals and reasonable seller pricing. PE investors and opportunistic funds will target value-add and distressed hotels where additional capital can be deployed to generate a near-term lift in revenues and profitability. In many cases, PE and opportunity funds are strategically partnering with hotel operators on their acquisitions to capture operating synergies, particularly in markets with growing demand. Hotels that can be acquired at steep discounts to replacement cost, especially those in gateway or secondary markets, will be attractive to opportunistic investors with a five- to seven-year investment horizon.

For smaller deals in the $10M to $30M range, we continue to see buying activity from local and regional owner/operators and erstwhile developers. These groups also find discounts to replacement cost to be appealing in the current transaction market. REIT acquisitions will continue to be rare, but they will occur, with public companies judiciously investing in hotels that can positively impact share pricing.

WHAT DOES THE PICTURE LOOK LIKE FOR LODGING DEBT?

Debt markets are normalizing and new liquidity is stimulating deal flow. The outlook for hotel debt capital in 2026 is positive as lenders regain confidence and refinancing pressures moderate. Additionally, a new chair for the Fed this May should bring a more favorable posture on future rate cuts, especially if inflation has subsided and labor markets need a nudge. After two years of elevated interest rates and cautious underwriting, banks and debt funds are gradually expanding capacity for lodging, though still with tight credit standards. Traditional banks are selectively looking at hotel loans, favoring branded select-service and upper-upscale assets with stable historical performance and, often most critically, strong sponsorship. Construction financing will remain elusive except for hotels being built in proven urban markets.

While the economy is clearly not in the fast lane yet, CMBS lenders and insurance companies are expected to increase allocations as spreads compress and investors seek higher-yielding and secured commercial real estate exposure. Real estate credit markets are experiencing record liquidity and growing transaction volumes. In fact, at year end, 2025 CMBS issuance was on pace to exceed $120 billion, the highest since 2007! Issuances for January 2026 are also off to a strong start. The broader debt markets will benefit from the recent easing in monetary policy, allowing borrowers to lock in longer-term financing.

As debt markets improve, private credit will remain influential as many properties still will not support refinancing at today's rigorous institutional DSCR requirements. As a result, preferred equity, mezzanine debt, and rescue capital will continue to play a crucial role. Investors with flexible capital structures will find assorted opportunities to recapitalize their hotels. Overall, 2026 is shaping up not as a distressed year, but as a normalizing period, where sponsors can secure financing and capital providers can take advantage of underwriting gaps. While we don't expect rates to drop significantly, the cost of debt for hotels is becoming less of a hurdle than it has been over the last couple of years.

WHICH AREAS OF THE U.S. OFFER THE BEST OPPORTUNITY FOR HOTEL INVESTMENT?

Sunbelt markets remain very appealing for lodging investments. These include Charlotte, Raleigh, the Gulf Coast of Florida, Ft. Lauderdale, Nashville, Northern Virginia, Phoenix, and certain areas of Texas, including submarkets within cities such as San Antonio, Houston, and Dallas. Smaller markets like Huntsville and Birmingham, Alabama; Pensacola, Florida; Chattanooga and Knoxville, Tennessee; and college towns across the southern U.S. continue to exhibit solid fundamentals. All of these places are generally experiencing growth in corporate, medical, or leisure demand, meaningful population and employment expansion, and a pro-growth business posture. Revenue growth in these areas, as compared to other Top 25 markets is, by and large, exceeding expense growth due mainly to relatively stable labor costs. New development remains limited in some of these markets, so we expect demand will continue to outpace supply.

Activity has also picked up in San Francisco, Chicago, and other major urban markets that were disproportionately affected by the pandemic. Performance in these metro areas is recovering, and the discount to replacement cost and lack of new competitive supply is attracting opportunistic capital. Investors in these markets are essentially buying core-plus assets today at levels comparable to value-add returns at the peak of the last up-cycle.

Many properties in coastal and mountain resort regions have now become year-round venues attracting mainly leisure clients, but also well-paying corporate group accounts. Those resort and experiential destinations that attract less price-sensitive customers continue to have great appeal to investors, especially since pricing is such that it allows them to deploy large sums of capital into assets that have proven themselves and have appreciated in value over time. Asset pricing for the resort asset class remains extremely lofty due to a severe shortage of such investment opportunities in the marketplace.

IN CONCLUSION...

While 2025 was a time of reckoning, especially for hotel owners, a number of urban markets and key submarkets have seen meaningful recovery. That recovery, coupled with lower interest rates, is creating optimism for improved investment returns in the lodging sector in 2026. Capital markets are expected to continue to rebound, with overall commercial real estate transaction volume growing at a faster pace in the new year while per-key pricing growth remains muted. Debt is readily available at lower rates for hotels, and the cost of debt is now less of a hurdle than it has been over the last couple of years. Our conversations with some of the most active investors in the hotel real estate arena indicate a clear shift toward cautious optimism for 2026. All of us at The Plasencia Group share that outlook and look forward to a fruitful year ahead.

WE'RE EAGER TO PARTNER WITH YOU

Our team stands ready to assist you not only with investment advisory services but also with loan workouts, note sales, refinancings, owner representation, and development management consulting. Our experience through several economic cycles can add value to forthcoming decisions regarding your current and future hotel and resort portfolio.

For more information on how we're assisting our clients through this cycle, don't hesitate to reach out and contact any member of our team by calling us at (813) 932-1234, or learn more about us on the web at **tpghotels.com**. There, you can find details on the services we're providing to owners, investors, lenders, servicers, and others with hotel interests. Until then, we hope you and your families remain happy, healthy, and safe. We look forward to speaking with you soon!

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About The Plasencia Group

In 1993, The Plasencia Group was formed to provide hotel and resort owners investment advisory services at a personal level. Thirty-three years and hundreds of engagements later, we still have the privilege of delivering seasoned, sound advice to our clients with the passion, access, and certainty they've come to expect. Our firm offers investment sales, asset management, owner representation, development and renovation management, debt and equity sourcing, and advisory services to hotel and resort owners throughout North America.

Contact us today if our experienced advisory team can assist you in evaluating your current portfolio and strategizing for the weeks and months ahead. We look forward to the opportunity to serve you.

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