

# NYU IHIF Takeaways: Key Observations on Brands, Capital, and AI

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HVS was proud to sponsor NYU IHIF this year. Following several months of surprisingly strong RevPAR and revenue growth, the mood was much improved from ALIS. Conversations around AI, branded residential, and renovations and conversions were most prevalent. Transaction activity is lagging the market recovery, but indications are that the buyer/seller gap is narrowing.



Consumer spending and travel have continued and are proving to be resilient, despite factors such as inflation, the duration of peace talks between the U.S. and Iran, and the impact of oil prices on transportation and consumer goods. Travel among the middle class is gaining traction, and consumers may choose to drive rather than to fly to domestic destinations when pricing is a major factor. Alternatively, there is little-to-no price resistance in luxury travel, which has contributed to substantial RevPAR growth despite the macroeconomic dynamics. There is significant investment interest in the luxury segment currently, as it has continuously proven to be resilient amid geopolitical factors, rising construction costs, and growing supply costs. Capital interest has remained stronger in this caliber of asset.

Geopolitical factors are creating short-term uncertainty, which is delaying the deployment of capital in the hotel industry. However, the credit market (e.g., CMBS) is improving a little, facilitating the completion of transactions. It is important to note that the bid-ask spread is gradually narrowing, depending on the hotel product type and opportunities. Capital stacks are requiring more creativity than ever before. As interest rates remain stagnant and uncertainty around the economy prevails, both equity and debt investors are playing it safe, and a more diverse capital stack is needed to push deals across the finish line.

Foreign market interest remains strong; less red tape in countries like China and India provides stronger opportunities for development, and with an expanding middle class, these countries remain an attractive option for future projects. In fact, major hotel brands like Hyatt and IHG have the majority of their current development pipeline in the Asian markets.

## **Brand Conversions Can Enhance Returns If Done Right**

In the brand conversion space, understanding the market/demand mix is crucial in determining the right brand for an asset. Is the market more reliant on midweek commercial demand driven by business travelers using brand loyalty points or seeking a higher end hotel product? Will the brand conversion truly help the hotel capture greater market share in a segment that it currently lacks because of the outdated product offering? These questions are crucial for ownership and brand representatives to answer when selecting the right affiliation for a property.

During the rebranding process, the hotel owner/operator and brand representatives should establish a plan that provides a reasonable timetable for the conversion renovations and considers anticipated business disruptions. They should identify the ramp-up time that would be required and incorporate that into the forecast/pro forma. It's also important to be thoughtful and realistic about the scope of work and cost that would be required to elevate the guest experience and enhance the hotel product to ensure upselling opportunities. Collaboration and consistent communication between the owner, operator, and brand representatives are necessary to ensure the brand conversion process is executed as smoothly, swiftly, and successfully as possible.

## **Branded Residential Remains a Focal Point**

Branded residential components are increasing in popularity among future hotel developments; however, simply placing a brand on a residential component isn't enough to drive value and interest for buyers. Creating targeted and unique experiences within these brands is necessary to enhance the appeal of these developments.

## **AI Is Emerging as a Key Industry Tool**

AI is having an increasing impact on the hospitality industry, particularly contributing to the changing nature of job roles within brands, investors, and debt providers. It is the responsibility of executives and leadership teams to acknowledge the AI change, set expectations for employees, and stay up-to-date with the trends.

Proper and consistent use of AI should contribute to some level of efficiency, productivity, cost savings, and revenue optimization. However, hotel job roles are expected to evolve rather than be fully replaced. The proper use of AI will reduce time spent on administrative tasks, and some back-of-house positions could be consolidated and developed into more guest-facing roles. This should allow more time for staff members to provide meaningful customer service and problem resolution for guests.

AI can integrate stored guest data to help the hotel staff understand the guests' needs and preferences and resolve guest complaints. It is important to note that success of AI relies on correct and adequate stored data, so compiling and keeping good data is essential. AI can help filter meeting-and-group leads for the sales team, thereby increasing the sales team's

efficiency. Lastly, AI will increasingly become a tool for consumers' hotel and information searches by enhancing the search for experiential travel.

For our latest insights and updated HVS forecast for the U.S. hotel industry, read the May market pulse from Rod Clough, MAI, CRE, MRICS, President – Americas, and watch the recording of our Live Briefing in May.