



# Employment and the Hospitality Industry

As summer approaches, travel demand is heating up and so is the pressure on hospitality operators. Guests are focused on prices, travel, and experiences. Behind the scenes, however, owners and operators are balancing a far more complex reality with rising labor costs, persistent staffing shortages, and shrinking margins. The decisions made now around hiring, retention, and operations will directly shape profitability and brand reputation through the busiest months of the year.

Restaurants and hotels alike have had to adapt quickly to shifting conditions over the past several years. Demand is back, but the cost to deliver quality service has climbed sharply, especially when it comes to labor. Hiring, training, and retaining skilled employees remains uneven, creating inconsistent guest experiences that can erode loyalty and revenue.

At the core, the industry's top priority goal remains delivering quality service at a reasonable cost. But with many market forces outside of their control, operators are focusing on what they can influence most – building a stable, engaged workforce while managing cost pressures. That balance is difficult, but essential.

## Current State of Hospitality Employment

The hospitality industry began 2026 facing two ongoing employment challenges: rising labor and benefits costs, and high employee turnover. Operators continuously balance labor costs with maintaining enough staff to accommodate guests. This balance grows increasingly difficult as competition for good employees intensifies and wages climb.

### LABOR COSTS

Labor expenses are at historic highs. Wages and salaries have increased 35% from 2020 to 2025, with hourly rates rising from \$16.84 to \$22.75.<sup>1</sup> The costs of benefits add further strain. Healthcare costs continue to rise, with average family premiums reaching \$27,000 in 2025, up 6% year-over-year.<sup>2</sup> Expectations remain for continued increases in 2026. Expanded coverage, including specialty medications like GLP-1 drugs, can push premiums even higher.<sup>3</sup>



## EMPLOYEE RETENTION

Turnover remains at crisis levels, reaching 70–80% annually, and up to 100% in quick-service restaurants.<sup>4</sup> This drives constant hiring and training costs, further compressing margins.

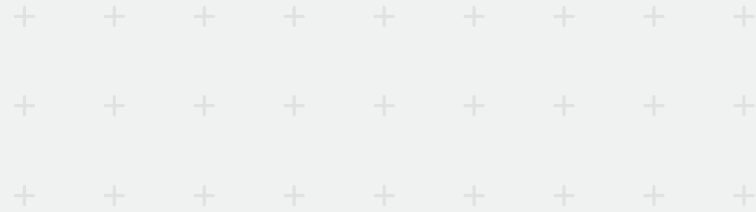
**Improving retention may increase short-term costs, but it is critical for long-term stability and service quality. Key actions include:**

- + Build culture by treating employees as both a team and a long-term asset, while offering flexibility and creating career paths.
- + Rethink benefits by offering tiered options that meet employees at different stages while managing costs over time.
- + Use technology such as data analytics and AI tools to improve scheduling, training, onboarding, and employee engagement.

## THE BENEFITS-RETENTION CONUNDRUM

Benefits can attract and retain talent, but they also raise costs. The goal is to balance both. Even a modest 10% reduction in turnover could save \$500,000–\$800,000 per 1,000 employees in hiring and training expenses.<sup>5</sup>

Yet, the broader objective is to reduce turnover, improve employee experience, and manage benefit costs more effectively. With the right strategies, organizations may achieve significant savings in benefits over the next three to five years while strengthening workforce loyalty.



## The Restaurant Sector

Restaurants face a unique challenge: strong demand paired with shrinking margins. Industry sales are expected to reach \$1.5 trillion, yet rising labor costs continue to erode profitability.<sup>6</sup>

Labor costs now account for 36.5% of sales in full-service restaurants and 31.7% in limited-service operations.<sup>7</sup> Margins are now 1–3 percentage points below pre-2020 levels.<sup>8</sup>

Nearly 50% of operators report they still need more staff to meet demand and the industry as a whole grapples with intensifying wage competition, driven by a 35% increase in average pay since 2020.<sup>9</sup> Wage mandates, over \$20 per hour in markets, add further pressure along with growing expectations for perks like tuition assistance and flexible pay options.

High turnover creates ongoing disruption. Restaurant work can be demanding, which makes recruiting and retaining talent even harder. Many potential workers are drawn to less stressful or more flexible alternatives.

### To respond, restaurants can:

- + Cross-training staff to increase flexibility
- + Eliminating hard-to-fill roles
- + Investing in automation and technology

Technology can improve both efficiency and employee satisfaction by reducing manual workload and simplifying operations. Competitive pay remains essential, but workplace experience increasingly determines who stays.

## The Hotel Sector

Hotels mirror many of the same trends as restaurants, demand with tightening margins. Revenue per available room has rebounded, but labor and operating costs continue to rise, creating ongoing financial pressure. Unlike restaurants, hotels require round-the-clock staffing, increasing workforce needs. Labor shortages can even limit room availability when housekeeping staff is insufficient.

Wage pressures are especially intense in major markets. In some locations, minimum wage laws and union agreements significantly increase labor costs, as they will in Las Vegas where labor contracts include 32% wage increases from 2026 to 2030.<sup>10</sup> Smaller and independent hotels feel this strain most acutely.

At the same time, broader operating costs continue to rise, in some cases faster than room rates. Profitability has declined slightly, with EBITDA margins dropping 1–2% compared to pre-pandemic levels.<sup>11</sup>

**Despite these pressures, outlook remains positive as travel demand continues to grow. To stay competitive, hotels can focus on:**

- + Extended-stay offerings
- + Partnerships with local amenities
- + Additional revenue streams beyond room bookings

Ultimately, execution comes down to people. Even the best strategies depend on having a reliable, skilled workforce in place, making hiring, retention, and workforce management the defining challenge for the industry going forward.



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